

EXHIBIT D

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number 001-39123

SILVERGATE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

33-0227337

(I.R.S. Employer Identification No.)

4250 Executive Square, Suite 300, La Jolla, CA 92037

(Address of principal executive offices, including zip code)

(858) 362-6300

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$0.01 per share	SI	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A	SI PRA	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2021 was \$2.9 billion.

As of February 21, 2022, the registrant had 31,624,497 shares of Class A voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

SILVERGATE CAPITAL CORPORATION
FORM 10-K
TABLE OF CONTENTS

	<u>Page</u>
Forward-looking Statements	2
PART I	
Item 1. Business	4
Item 1A. Risk Factors	21
Item 1B. Unresolved Staff Comments	34
Item 2. Properties	34
Item 3. Legal Proceedings	34
Item 4. Mine Safety Disclosures	34
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6. Selected Financial Data	35
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	55
Item 8. Financial Statements and Supplementary Data	58
Consolidated Statements of Financial Condition	60
Consolidated Statements of Operations	61
Consolidated Statements of Comprehensive Income	62
Consolidated Statements of Shareholders’ Equity	63
Consolidated Statements of Cash Flows	64
Notes to Consolidated Financial Statements	66
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	102
Item 9A. Controls and Procedures	102
Item 9B. Other Information	102
Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	102
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	103
Item 11. Executive Compensation	103
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	103
Item 13. Certain Relationships and Related Transactions, and Director Independence	103
Item 14. Principal Accountant Fees and Services	103
PART IV	
Item 15. Exhibits and Financial Statement Schedules	104
Item 16. Form 10-K Summary	106
SIGNATURES	107

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan” or words or phrases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors, which are in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- the success of the digital currency industry, the development and acceptance of which is subject to a high degree of uncertainty, as well as the continued evolution of the regulation of this industry and uncertainty of adoption of digital currencies;
- the success of the digital currency initiative and our ability to implement aspects of our growth strategy;
- the concentration of our depositor relationships in the digital currency industry generally and among digital currency exchanges in particular;
- our ability to grow or sustain our low-cost funding strategy related to the digital currency initiative;
- system failure or cybersecurity breaches of our network security;
- our ability to keep pace with rapid technological changes in the industry or implement new technology effectively;
- our reliance on third-party service providers for core systems support, informational website hosting, internet services, online account opening and other processing services;
- our reliance on third party custodians to hold bitcoin in connection with our SEN Leverage product;
- economic conditions (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation) that impact the financial services industry and/or our business;
- increased competition in the financial services industry, particularly from regional and national institutions;
- credit risks, our ability to manage our credit risk effectively and the potential deterioration of the business and economic conditions;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets;
- changes in the value of collateral securing our loans;
- our ability to protect our intellectual property and the risks we face with respect to claims and litigation initiated against us;
- our dependence on our management team and changes in management composition;
- the effectiveness of our internal control over financial reporting and our ability to remediate any future material weakness in our internal control over financial reporting;
- the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals;
- potential exposure to fraud, negligence, computer theft and cyber-crime and other disruptions in our computer systems relating to our development and use of new technology platforms;
- the adequacy of our risk management framework;
- our involvement from time to time in legal proceedings, examinations and remedial actions by regulators;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary, digital currency and fiscal matters;
- the financial soundness of other financial institutions;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- other factors that are discussed in Item 1A. Risk Factors.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Annual Report on Form 10-K and other reports and registration statements filed by us with the U.S. Securities and Exchange Commission (“SEC”). Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements. Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC’s website at <http://www.sec.gov>.

PART I**Item 1. Business**

All references to “we,” “us,” “our,” “Silvergate” or the “Company” mean Silvergate Capital Corporation and our consolidated subsidiaries, including Silvergate Bank, our primary operating subsidiary. All references to the “Bank” refer to Silvergate Bank. All references to the “Corporation” refer to Silvergate Capital Corporation. References to “common stock” or “Class A Common Stock” refer to our Class A voting common stock. References to “Class B Common Stock” refer to our Class B non-voting common stock.

Overview

Silvergate Capital Corporation is the holding company for our wholly owned subsidiary, Silvergate Bank, which we believe is the leading provider of innovative financial infrastructure solutions and services to participants in the nascent and expanding digital currency industry. Key to our leadership position and growth strategy is the Silvergate Exchange Network (“SEN”), our proprietary, virtually instantaneous payment network for participants in the digital currency industry which serves as a platform for the development of additional products and services. The SEN has a powerful network effect that makes it more valuable as participants and utilization increase. The SEN has enabled us to significantly grow our noninterest bearing deposit product for digital currency industry participants, which has provided the majority of our funding over the last four years. This unique source of funding is a distinct advantage over most traditional financial institutions and allows us to generate revenue from a conservative portfolio of investments in cash, short term securities and certain types of loans that we believe generate attractive risk-adjusted returns. In addition, use of the SEN has resulted in an increase in noninterest income that we believe will become a valuable source of additional revenue as we develop and deploy fee-based solutions in connection with our digital currency initiative. We are also evaluating additional products or product enhancements specifically targeted at providing further financial infrastructure solutions to our customers and strengthening SEN network effects, such as our SEN Leverage lending product described below under “Lending Activities”.

The Company is a Maryland corporation whose assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve (“Federal Reserve”). The Bank is subject to supervision by the California Department of Financial Protection and Innovation, Division of Financial Institutions (“DFPI”), and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco (“FRB”). The Bank’s deposits are insured up to legal limits by the Federal Deposit Insurance Corporation (“FDIC”).

In 2013, we began exploring the digital currency industry and have significantly expanded and reoriented our product and service menus since that time to support our growing digital currency initiative, including the implementation of deposit and cash management services for digital currency related businesses, domestically and internationally. Because of our focus on the digital currency industry in recent years and the unique value-add solutions and services we provide, we have experienced a significant increase in our noninterest bearing deposits which has allowed us to generate attractive returns on lower risk assets through increased investments in interest earning deposits in other banks and securities. Correspondingly, we have significantly de-emphasized our real estate lending and, currently, our lending activities are focused on digital currency collateralized loans or SEN Leverage, and mortgage warehouse loans. In fact, our SEN Leverage lending product, which was piloted during 2020, is now one of the Company’s core lending products. The growing acceptance and promise of our digital currency initiative led to our initial public offering (“IPO”) in 2019 and our rapid growth in the fourth quarter of 2020 through 2021 was fueled by four capital raising transactions in 2021 resulting in aggregate net proceeds of \$1.3 billion, all as further discussed below.

The Company completed its IPO of 3.3 million shares of its Class A common stock at a public offering price of \$12.00 per share on November 7, 2019. The common stock is traded on the New York Stock Exchange under the ticker symbol “SI.” The IPO generated aggregate net proceeds to the Company of \$6.5 million after deducting underwriting discounts and offering expenses.

In 2021, the Company completed four significant capital raising transactions, including underwritten public offerings of Class A common stock in January (4.6 million shares at a price of \$63.00 per share) and December (3.8 million shares at a price of \$145.00), an at the market offering of Class A Common Stock in March through May in which it sold 2.8 million shares of Class A common stock at an average price of approximately \$107.38, and an underwritten public offering in August of 8 million depository shares at \$25 per share, each share representing a 1/40th ownership interest in a share of 5.375% fixed rate non-cumulative perpetual preferred stock, Series A. The aggregate net proceeds of these transactions were approximately \$1.3 billion, after discounts and offering expenses. The net proceeds from these offerings have been used to further supplement the regulatory capital levels of the Company and the Bank and for other general corporate purposes, which may include providing capital to support the Company’s growth organically or through strategic acquisitions, and other growth initiatives, including the Bank’s SEN Leverage lending product, discussed below, custody and other digital asset services.

Recent Developments. On January 31, 2022, the Company announced that it had acquired intellectual property and other technology assets related to running a blockchain-based payment network from the Diem Group, further investing in its

platform and enhancing its existing stablecoin infrastructure. The acquired assets acquired include development, deployment and operations infrastructure and tools for running a blockchain-based payment network designed to facilitate payments for commerce and cross-border remittances. The network, which had been operating in a pre-launch phase, was built over a two-year development cycle with architectural quality evidenced by its security, reliability and scalability. Included in the acquisition are proprietary software elements critical to running a regulatory-compliant stablecoin network.

Digital Currency Initiative

We leverage the SEN and our management team's expertise in the digital currency industry to develop, implement and maintain critical financial infrastructure solutions and services for many of the largest U.S. digital currency exchanges and global investors, as well as other digital currency infrastructure providers that utilize the Company as a foundational layer for their products. The SEN is a central element of the operations of our digital currency related customers, which enables us to grow with our existing customers and to attract new customers who can benefit from our innovative solutions and services. We believe that our vision and advanced approach to compliance complement the SEN and empower us to extend our leadership position in the industry by developing additional infrastructure solutions and services that will facilitate growth in our business.

We began exploring the digital currency industry in 2013 based on market dynamics which we believed were highly attractive:

- **Significant and Growing Industry:** Digital currency presented a revolutionary model for executing financial transactions with substantial potential for growth.
- **Infrastructure Needs:** In order to become widely adopted, digital currency would need to rely on many traditional elements of financial services, including those services that support funds transfers, customer account controls and other security measures.
- **Regulatory Complexity as a Barrier to Entry:** Providing infrastructure solutions and services to the digital currency industry would require specialized compliance capabilities and a management team with a deep understanding of both the digital currency and the financial services industries.

These insights have been proven correct and we believe they remain true today. In fact, we believe that the market opportunity for digital currencies, the need for infrastructure solutions and services and the regulatory complexity have all expanded significantly since 2013. Our ability to address these market dynamics over the past eight years has provided us with a first-mover advantage within the digital currency industry that is the cornerstone of our leadership position today.

Digital Currency Customers

Our customer base has grown rapidly, as many customers proactively approach us due to our reputation as the leading provider of innovative financial infrastructure solutions and services to participants in the digital currency industry, which includes our unique technology solutions. As of December 31, 2021, we had over 300 prospective digital currency customer leads in various stages of our customer onboarding process and pipeline, which includes extensive regulatory compliance diligence and integrating of the customer's technology stack for those new digital currency customers interested in using our proprietary, cloud-based application programming interface ("API").

The following list sets forth summary information regarding the types of market participants who are our primary customers:

- **Digital Currency Exchanges:** Exchanges through which digital currencies are bought and sold; includes over-the-counter ("OTC") trading desks.
- **Institutional Investors:** Hedge funds, venture capital funds, private equity funds, family offices and traditional asset managers, which are investing in digital currencies as an asset class.
- **Other Customers:** Companies developing new protocols, platforms and applications; mining operations; and providers of other services.

Our customers include some of the largest U.S. exchanges and global investors in the digital currency industry. These market participants generally hold either or both of two distinct types of funds: (i) those funds that market participants use for digital currency investment activities, which we refer to as investor funds, and (ii) those funds that market participants use for business operations, which we refer to as operating funds.

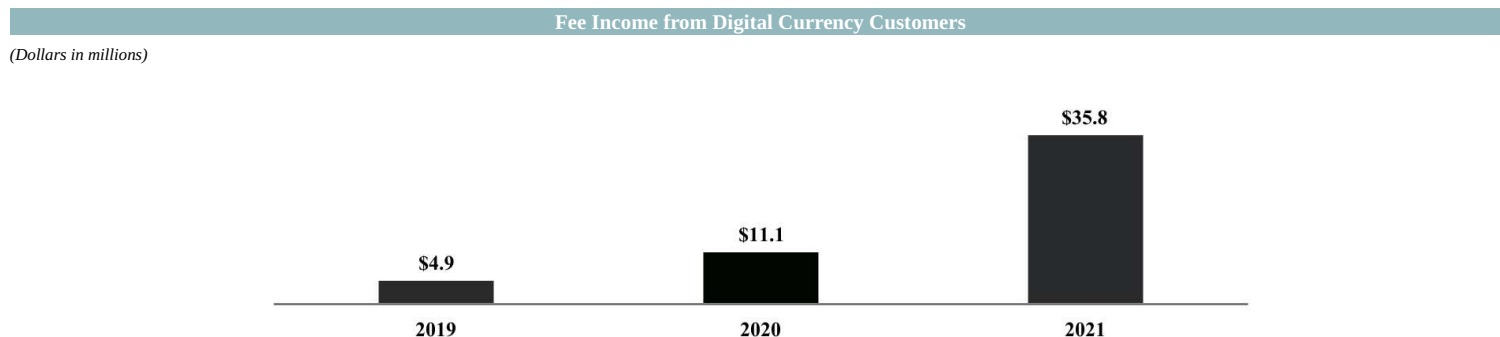
Our customer ecosystem also includes software developers, digital currency miners, custodians and general industry participants that need our solutions and services.

The following table presents a breakdown of our digital currency customer base and the deposits held by such customers at the dates noted below:

	December 31, 2021		December 31, 2020		December 31, 2019	
	Number of Customers	Total Deposits ⁽¹⁾	Number of Customers	Total Deposits ⁽¹⁾	Number of Customers	Total Deposits ⁽¹⁾
(Dollars in millions)						
Digital currency exchanges	94	\$ 8,288	76	\$ 2,479	60	\$ 527
Institutional investors	894	4,220	607	1,811	509	432
Other customers	393	1,603	286	749	235	286
Total	1,381	\$ 14,111	969	\$ 5,039	804	\$ 1,246

(1) Total deposits may not foot due to rounding.

The following chart sets forth our digital currency customer related fee income for the periods noted below:



Silvergate Exchange Network

We designed the SEN as a network of digital currency exchanges and digital currency investors that enables the efficient movement of U.S. dollars between SEN participants 24 hours a day, 7 days a week, 365 days a year. In this respect, the SEN is a first-of-its-kind digital currency infrastructure solution.

The core function of the SEN is to allow participants to make transfers of U.S. dollars from their SEN account at the Bank to the Bank account of another SEN participant with which a counterparty relationship has been established, and to view funds transfers received from their SEN counterparties. Counterparty relationships between parties effecting digital currency transactions are established on the SEN to facilitate U.S. dollar transfers associated with those transactions.

SEN transfers occur on a virtually instantaneous basis as compared to electronic funds transfers being sent outside of the Bank, such as wire transfers and ACH transactions, which can take from several hours to several days to complete. Our proprietary, cloud-based API combined with our online banking tools, allows customers to efficiently control their fiat currency, transact through the SEN and automate their interactions with our technology platform.

For the years ended December 31, 2021, 2020 and 2019 there were \$787.4 billion, \$135.7 billion and \$32.7 billion, respectively, of U.S. dollar transfers that occurred on the SEN.

Compliance

Our digital currency industry solutions and services are currently offered through the Bank. Our solutions and services are built on our deep-rooted commitment and proprietary approach to regulatory compliance. Over the past eight years we have further developed our proprietary compliance capabilities, which include ongoing monitoring of customer activities and evaluating a market participant's ability to actively monitor the flow of funds of their own customers. We believe these capabilities are a distinct competitive advantage for us, and provide a meaningful barrier to entry against our potential competitors, as there is not currently a well-established and easily navigable regulatory roadmap for competitors to serve digital

currency industry customers. For this reason, our long-term investment in developing and enhancing our highly specialized compliance capabilities will remain a strategic priority for us.

Deposits

Our deposits serve as the primary funding source for lending, investing and other general banking purposes, and one of the key elements of our financial success is our low-cost deposit base. Our digital currency initiative has enabled the Bank to rapidly grow deposits from digital currency customers. Because of our focus on the digital currency industry in recent years and the unique value-add solutions and services we provide, we have achieved substantial improvements in our deposit base, specifically an increase in our noninterest bearing deposits, which has driven the Bank’s funding costs to among the lowest in the U.S. banking industry.

Our noninterest bearing deposits as a percentage of total deposits was 99.5% as of December 31, 2021. This funding base allows us to manage our interest earning assets conservatively and we have transitioned from primarily deploying our funding into loans to deploying funds into other assets that generate attractive risk-adjusted returns.

We segment our deposits based on their potential volatility, which drives our choices regarding the assets we fund with such deposits. Deposits attributable to digital currency customer investor funds are assigned the highest potential volatility. These deposits were approximately \$11.7 billion as of December 31, 2021, and we invest these funds primarily in adjustable rate securities available-for-sale and interest earning deposits in other banks. We also use a portion of our deposits attributable to investor funds as the funding source for specialized lending opportunities, such as mortgage warehouse and SEN Leverage lending activities. We are comfortable with this strategy because of the short-term nature of those assets and because we can access funding at the Federal Home Loan Bank (“FHLB”) should we experience heightened volatility in the deposit balances related to these digital currency investor funds.

We use deposits attributable to digital currency customer operating funds to make loans across our other lending businesses, as discussed below.

Lending Activities

Overview. We maintain a diversified loan portfolio in terms of the types of loan products and customer characteristics, with a focus on shorter term and higher yielding products. Currently, our lending activities are focused on digital currency collateralized loans under the commercial and industrial loan category and mortgage warehouse loans although we continue to hold commercial real estate loans, multi-family real estate loans, construction loans, one-to-four family real estate loans and other loans.

The following table presents the composition of our total loan portfolio, by segment, as of December 31, 2021:

LOAN PORTFOLIO COMPOSITION

	Amount	Percentage of Total Gross Loans
	(Dollars in thousands)	
Real estate:		
One-to-four family	\$ 105,098	11.8 %
Multi-family	56,751	6.3 %
Commercial	210,136	23.5 %
Construction	7,573	0.8 %
Subtotal real estate	379,558	42.4 %
Commercial and industrial ⁽¹⁾	335,862	37.6 %
Reverse mortgage and other	1,410	0.2 %
Mortgage warehouse	177,115	19.8 %
Total gross loans held-for-investment	\$ 893,945	100.0 %
Total loans held-for-sale ⁽²⁾	\$ 893,194	

(1) Commercial and industrial loans consists primarily of SEN Leverage loans.

(2) Loans held-for-sale consists of mortgage warehouse loans.

Commercial and Industrial Loans. Our commercial and industrial loans are U.S. dollar denominated loans collateralized almost exclusively by bitcoin or U.S. dollars. We developed SEN Leverage line of credit loans within the framework of the Bank's legal lending authority, conservative credit culture and robust loan approval process. Borrowers accessing SEN Leverage provide bitcoin or U.S. dollars as collateral in an amount greater than the line of credit eligible to be advanced. The Bank works with regulated digital currency exchanges and other indirect lenders, as the case may be, to both act as its collateral custodian for such loans, and to liquidate the collateral in the event of a decline in collateral coverage below levels required in the borrower's loan agreement.

Our SEN Leverage product enables our digital currency customers to borrow U.S. dollars directly from the Bank to provide liquidity to support bitcoin trading activity using bitcoin as the collateral for these loans, which we refer to as SEN Leverage direct lending. In the SEN Leverage direct lending structure, a digital currency service provider, acting as custodian, holds the borrower's bitcoin and the Bank uses the SEN to fund the loan directly to the borrower's account at the exchange. In addition, the Bank also provides loans collateralized by bitcoin to digital currency industry companies for corporate treasury and other business purposes, which we refer to as SEN Leverage indirect lending. In the indirect lending structure, the lender uses bitcoin to collateralize its loan with the Bank and the funding of the loan and liquidation of the collateral may or may not occur via the SEN. The Bank uses a custodian to custody the bitcoin collateral and may use a separate digital currency service provider to monitor the bitcoin collateral coverage ratio and, if necessary, to liquidate the bitcoin collateral. We believe our SEN Leverage product is unique in the digital currency industry, creating both deeper relationships with our clients and an attractive source of potential future revenue growth.

At no time does the Bank directly hold the pledged bitcoin digital currency. The Bank sets collateral coverage ratios at levels intended to yield collateral liquidation proceeds in excess of the borrower's loan amount, but the borrower remains obligated for the payment of any deficiency notwithstanding any change in the condition of the exchange, financial or otherwise.

As of December 31, 2021, we had SEN Leverage approved lines of credit totaling \$570.5 million, as compared to \$82.5 million at December 31, 2020. The outstanding balance of SEN Leverage loans was \$335.9 million, or 18.9% of our total loan portfolio, including our loans held-for-sale, at December 31, 2021 compared to \$77.2 million, or 4.8% of our total loan portfolio at December 31, 2020.

Mortgage Warehouse Loans. Our mortgage warehouse lending division provides short-term interim funding primarily for single-family residential mortgage loans originated by mortgage bankers or other lenders. We hold legal title to such loans from the date they are funded by us until the loans are sold to secondary market investors pursuant to pre-existing take out commitments, generally within a few weeks of origination, with loan sale proceeds applied to pay down Company funding. Our risk is mitigated by comprehensive policies, procedures, and controls governing this activity, partial loan funding by the originating lender, guarantees or additional monies pledged to the Company as security, and the short holding period of funded loans on the Company's balance sheet. In addition, loss rates of this portfolio have historically been minimal, and these loans are primarily subject to written purchase commitments from takeout investors or are hedged. Our mortgage warehouse loans may either be held-for-investment or held-for-sale depending on the underlying contract. Since the opening of the mortgage warehouse division in April 2009 through December 31, 2021, we purchased \$55.1 billion in loans and incurred only \$61,000 of net losses in 2017. We sold approximately \$0.8 million and \$191.5 million of loans to participants during the years ended December 31, 2021 and 2020, respectively. At December 31, 2021, gross mortgage warehouse loans were approximately \$1.1 billion.

Real Estate Loans. Real estate loans include loans for which the Company holds one-to-four family, multi-family, commercial and construction real property as collateral. Our one-to-four family real estate loans primarily consist of non-qualified ("Non-QM") single-family residential mortgage loans and purchases of loan pools. The Bank engaged in purchases and sales of Non-QM loans from 2014 until deciding to cease new loan purchases in mid-2020, but has retained remaining previously purchased loans as interest earning assets on its balance sheet. Multi-family real estate loans have been offered for the purchase or refinancing of apartment properties located primarily in our Southern California market area. Commercial real estate lending activity has historically been primarily focused on investor properties that are owned by customers with an established banking relationship with the Company. The primary risks of real estate mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate mortgage loan unprofitable. Real estate loans also may be adversely affected by conditions in the real estate markets or in the general economy. The Bank has been de-emphasizing the origination of real estate loans and currently is not actively originating such loans. At December 31, 2021, total real estate loans were approximately \$379.6 million.

Credit Policies and Procedures

General. We adhere to what we believe are disciplined underwriting practices, pursuant to conservative standards and guidelines. We maintain asset quality through an emphasis on market knowledge, long-term customer relationships, consistent

and thorough underwriting for all loans, continuous surveillance and monitoring of the loan portfolio and a conservative credit culture. We also seek to maintain a diversified loan portfolio. These components, together with active portfolio management, are the foundation of our credit culture.

Credit Concentrations. Our credit policies establish concentration limits by loan product types and geographic locations to enhance portfolio diversification. The Bank's concentration management program couples quantitative data with a thorough qualitative approach to provide an in-depth understanding of its loan portfolio concentrations. The portfolio concentration limits set forth in Bank's Loan Concentration Policy are reviewed and approved by the Bank's board of directors at least annually. Concentration levels are monitored by management and reported to the board of directors at least quarterly.

Loan Approval Process. As of December 31, 2021, the Bank had a legal lending limit of approximately \$388.6 million for loans secured by cash, readily marketable collateral, or real estate collateral qualifying under the California Financial Code (the "Financial Code"), and \$233.1 million for loans without such collateral or any collateral. The Bank's lending activities are governed by written underwriting policies, standards and procedures that have been approved by the Management Lending Committee ("MLC"). The policies provide delegated lending authority to senior management of the Bank. We believe that our credit approval process provides for thorough underwriting and efficient decision making.

Loan Reviews and Problem Loan Management. Our credit administration staff conducts meetings at least four times a year to review asset quality and loan delinquencies with the MLC. The Bank's Loan Portfolio Management Procedure prescribes loan review frequency and scope through a risk-based approach that considers loan amount, type, risk rating and payment status. Individual loan reviews encompass a loan's payment status and history, current and projected paying capacity of the borrower and/or guarantor(s), current condition and estimated value of any collateral, sufficiency of credit and collateral documentation, and compliance with Bank and regulatory lending standards. Loan reviewers assign an overall loan risk rating from one of the Bank's loan rating categories and prepare a written report summarizing the review.

Once a loan is identified as a problem loan or a loan requiring a workout, the Bank makes an evaluation and develops a plan for handling the loan. In developing such a plan, management reviews all relevant information from the loan file and any internal or third-party loan review reports. We have conversations with the borrower and update current and projected financial information and collateral valuation estimates. Following analysis of all available relevant information, management adopts an action plan from the following alternatives: (a) continuation of loan collection efforts on their existing terms, (b) a restructure or extension of the loan's terms, (c) a sale of the loan, (d) a charge off or partial charge off, (e) foreclosure on pledged collateral, or (f) acceptance of a deed in lieu of foreclosure.

Investments

We manage our securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Specific objectives of our investment policy and portfolio are as follows:

- ***Ensure the Safety of Principal***—Bank investments are generally limited to investment-grade instruments that fully comply with all applicable regulatory guidelines and limitations. Allowable non-investment-grade instruments must be approved by the board of directors.
- ***Income Generation***—The Bank's investment portfolio is managed to maximize income on invested funds in a manner that is consistent with the Bank's overall financial goals and risk considerations.
- ***Provide Liquidity***—The Bank's investment portfolio is managed to remain sufficiently liquid to meet anticipated funding demands either through declines in deposits and/or increases in loan demand.
- ***Mitigate Interest Rate Risk***—Portfolio strategies are used to assist the Bank in managing its overall interest rate sensitivity position in accordance with goals and objectives approved by the Asset Liability Management Committee (or "ALCO").

Since we are required to maintain high levels of liquidity for our customers who operate in the digital currency industry, our investment portfolio is comprised of available for sale securities such as mortgage-backed securities backed by government-sponsored entities, highly rated credit or government-sponsored asset backed securities, highly rated commercial mortgage-backed securities, and highly rated municipal bonds.

Our investment policy is reviewed and approved annually by our board of directors. Overall investment objectives are established by our board through our investment policy and monitored through our ALCO. Day-to-day activities pertaining to the securities portfolio are conducted under the supervision of the ALCO consisting of our Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, Chief Operating Officer, Chief Risk Officer, and Director of Treasury. We actively monitor our investments on an ongoing basis to identify any material changes in our mix of securities. We also review our securities for potential impairment (other than temporary impairments) at least quarterly.

Competition

The banking and financial services industry is highly competitive, and we compete with a wide range of financial institutions within our markets, including local, regional and national commercial banks and credit unions. We also compete with other financial intermediaries for certain of our products and services. Some of our competitors are not currently subject to the regulatory restrictions and the level of regulatory supervision applicable to us.

We face direct competition from a handful of banks that are actively seeking relationships with our current and prospective digital currency customers. In addition, we compete with other infrastructure service providers primarily related to the digital currency industry. As adoption of digital currency grows, we expect additional banks, other financial institutions and other infrastructure service providers to enter into the digital currency industry and compete with us for our current and prospective digital currency customers. Additionally, some of our current digital currency customers are also licensed financial institutions that may attempt to compete with us in the future. The pace of innovation within the digital currency industry is rapid and may result in competitors or new competing business models that we are not aware of today. Many of our competitors are much larger financial institutions that have greater financial resources than we do and compete aggressively for market share.

Other important standard competitive factors in our industry and markets include quality of customer service, reputation, continuity of personnel and services, capacity and willingness to extend credit, and ability to offer sophisticated banking products and services. While we seek to remain competitive with respect to fees charged, interest rates and pricing, we believe that our broad and sophisticated product suite, high quality customer service culture, positive reputation and long-standing relationships will enable us to compete successfully within our markets and enhance our ability to attract and retain customers.

Employees and Human Capital Resources

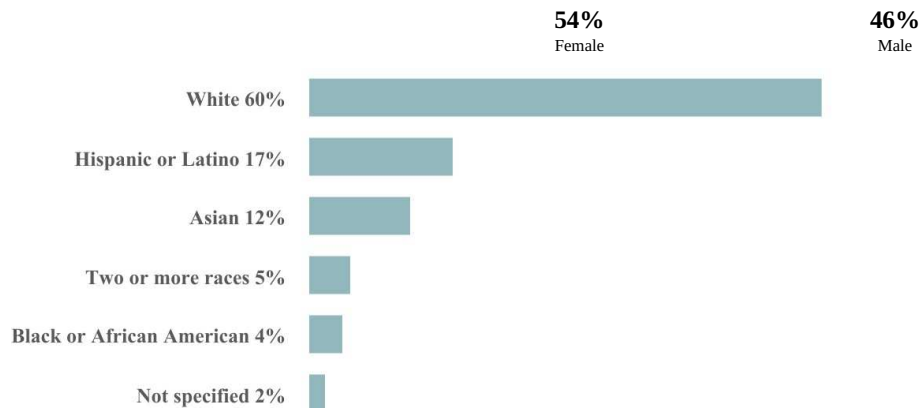
Silvergate aspires to create an empowering workplace that enables employees to advance new solutions, while working consciously to help protect the planet. We aim to empower employees' lives outside of work, with a strong benefits package as well as flexibility and support for parents and other caregivers. Our commitment to remote work minimizes environmental impact while also helping our employees lead healthier, happier lives.

At December 31, 2021, we employed 279 persons, all of which were employed on a full-time basis. None of our employees are represented by any collective bargaining unit or are a party to a collective bargaining agreement. Silvergate's ability to attract and retain employees is a key to its success. Silvergate offers a competitive total rewards program to our employees and we monitor the competitiveness of our compensation and benefits programs in our various market areas.

Diversity and Inclusion

Silvergate strongly believes that a diverse workforce and an inclusive environment improve individual and organizational performance. We are proud of the diversity of thought, culture and background represented within Silvergate's employees, and continually work toward enhancing our inclusive culture.

EMPLOYEE DEMOGRAPHICS⁽¹⁾



(1) Data as of December 31, 2021.

Company Culture

Silvergate prides itself on being a values-driven organization, where employees are empowered to interact collaboratively, take ownership, and do more than what's expected for our clients, while building a fun, vibrant and performance driven culture. Silvergate's core values guide the way we work together on behalf of our customers and the digital currency industry as a whole as we strive to:

- Challenge convention
- Cultivate awesome
- Do what's right
- Empower people
- Exceed expectations
- Take ownership

Our company core values guide each team member as we explore, innovate and embrace change. In addition, we are committed to developing our staff through continuing education and training programs. Leadership development is supported through various programs available to all levels of leadership within the organization.

Environmental Impact

The safety, health and wellness for our employees is a top priority. We successfully moved to a virtual-first workplace in 2020, with approximately 96% of our employees working remotely as of December 31, 2021. The Company has adopted preventative measures to protect employees working in the office and continually provides guidelines to employees to promote healthy habits and we rely on technology to stay connected while working remotely. As a result, the environmental impact of our operations is limited.

Supervision and Regulation**General**

We are extensively regulated under both federal and state law. These laws restrict permissible activities and investments and require compliance with various consumer protection provisions applicable to lending, deposit, brokerage, and fiduciary activities. They also impose capital adequacy requirements and conditions on a bank holding company's ("BHC") ability to pay dividends to its shareholders, to repurchase stock or to receive dividends from its subsidiary banks. As a BHC, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Federal Reserve conducts examinations of the Corporation and its subsidiaries. The Corporation is also a BHC within the meaning of the Financial Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the DFPI. As a California state-chartered commercial bank that is a member of the Federal Reserve, the Bank is subject to supervision, periodic examination and regulation by the DFPI and the Federal Reserve. The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund (the "DIF"). Based on this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank as well as all other FDIC insured institutions. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law. The Corporation's and the Bank's regulators generally have broad discretion to impose restrictions and limitations on our operations. Bank regulation is intended to protect depositors and consumers and not shareholders. This supervisory framework could materially impact the conduct and profitability of our activities.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the text of applicable statutory and regulatory provisions. Legislative and regulatory initiatives, which necessarily impact the regulation of the financial services industry, are introduced from time-to-time. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. The Dodd-Frank Act, by way of example, contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies. Some of the changes brought about by the Dodd-Frank Act have been modified by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "Regulatory Relief Act"), signed into law on May 24, 2018. The Dodd-Frank Act has increased the regulatory burden and compliance costs of the Corporation. Moreover, bank regulatory agencies can be more aggressive in responding to concerns and trends identified in examinations, which could result in an increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management, and capital adequacy, as well as other safety and soundness concerns.

Regulation of Silvergate Capital Corporation

We are registered as a BHC under the BHC Act and are subject to regulation and supervision by the Federal Reserve. The BHC Act and Home Owners' Loan Act require us to secure the prior approval of the Federal Reserve before we own or control, directly or indirectly, more than 5% of the voting shares or substantially all the assets of any bank, thrift, bank holding company or thrift holding company, or merge or consolidate with another bank or thrift holding company. Further, under the BHC Act, our activities and those of any nonbank subsidiary are limited to: (i) those activities that the Federal Reserve determines to be so closely related to banking as to be a proper incident thereto, and (ii) investments in companies not engaged in activities closely related to banking, subject to quantitative limitations on the value of such investments. Prior approval of the Federal Reserve may be required before engaging in certain activities. In making such determinations, the Federal Reserve is required to weigh the expected benefits to the public, such as greater convenience, increased competition, and gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices.

Subject to various exceptions, the BHC Act and the Change in Bank Control Act (the "CBCA"), together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a BHC, such as the Corporation. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the BHC. With respect to the CBCA, a rebuttable presumption of control arises if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either: (i) the BHC has registered securities under Section 12 of the Securities Act; or (ii) no other person owns a greater percentage of that class of voting securities immediately after the transaction. The Federal Reserve may require an investor to enter into passivity and, if other companies are making similar investments, anti-association commitments.

The BHC Act was substantially amended by the Gramm-Leach-Bliley Act (the "GLBA"), which, among other things, permits a "financial holding company" to engage in a broader range of nonbanking activities, and to engage on less restrictive terms in certain activities than were previously permitted. These expanded activities include securities underwriting and dealing, insurance underwriting and sales, and merchant banking activities. To become a financial holding company, a BHC must certify that it and all depository institutions that it controls are both "well capitalized" and "well managed" (as defined by federal law), and that all subsidiary depository institutions have at least a "satisfactory" Community Reinvestment Act ("CRA") rating. To date we have not elected to become a financial holding company.

There are several restrictions imposed on us by law and regulatory policy that are designed to minimize potential loss to depositors and to the DIF in the event that a subsidiary depository institution should become insolvent. For example, federal law requires a BHC to serve as a source of financial and managerial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so in the absence of the rule. The Federal Reserve also has the authority under the BHC Act to require a BHC to terminate any activity or to relinquish control of a nonbank subsidiary upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the BHC.

Any capital loan by a BHC to a subsidiary depository institution is subordinate in right of payment to deposits and certain other indebtedness of the institution. In addition, in the event of the BHC's bankruptcy, any commitment made by the BHC to a federal banking regulatory agency to maintain the capital of its subsidiary depository institution(s) will be assumed by the bankruptcy trustee or receivership and entitled to a priority of payment.

The FDIC provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as a subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution, such as the Bank, fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the institution's holding company, with respect to any extensions of credit they have made to such insured depository institution.

The ability of any bank holding company to acquire another bank holding company or bank is also significantly impacted by subjective decisions of federal regulators, including political appointees, as to whether any proposed merger would be consistent with national financial institutions policies. These subjective views may have an impact on the ability of any bank holding company to engage in a merger transaction.

Regulation of Silvergate Bank

The operations and investments of our Bank are subject to the supervision, examination, and reporting requirements of the DFPI and the Federal Reserve and to federal banking statutes and regulations related to, among other things, the level of reserves that our Bank must maintain against deposits, restrictions on the types, amount, and terms and conditions of loans it may originate, and limits on the types of other activities in which our Bank may engage and the investments that it may make. Because our Bank's deposits are insured by the FDIC to the maximum extent provided by law, it is also subject to certain FDIC regulations, and the FDIC has backup examination authority and some enforcement powers over our Bank. If, based on an

examination of our Bank, the regulators should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank or our management is violating or has violated any law or regulation, various remedies are available to the regulators. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict growth, to assess civil monetary penalties, to remove officers and directors and ultimately to request the FDIC to terminate the Bank's deposit insurance.

Transactions with Affiliates and Insiders

We are subject to federal laws, such as Sections 23A and 23B of the Federal Reserve Act (the "FRA"), that limit the size, number and terms of the transactions that depository institutions may engage in with their affiliates. Under these provisions, covered transactions by a bank with nonbank affiliates (such as loans to or investments in an affiliate by the bank) must be on arms-length terms and generally be limited to 10% of the bank's capital and surplus for all covered transactions with any one affiliate, and 20% of capital and surplus for all covered transactions with all affiliates. Any extensions of credit to affiliates, with limited exceptions, must be secured by eligible collateral in specified amounts. Banks are also prohibited from purchasing any "low quality" assets from an affiliate. The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the FRA, including an expansion of the definition of "covered transactions" to include derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions and an increase in the period of time during which collateral requirements regarding covered credit transactions must be satisfied. The Federal Reserve has promulgated Regulation W, which codifies prior interpretations under Sections 23A and 23B of the FRA and provides interpretive guidance with respect to affiliate transactions. Affiliates of a bank include, among other entities, a bank's BHC parent and companies that are under common control with the bank. We are considered to be an affiliate of the Bank.

We are also subject to restrictions on extensions of credit to our executive officers, directors, shareholders who own more than 10% of our Class A and Class B Common Stock, and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and must not involve more than the normal risk of repayment or present other unfavorable features. Loans to such persons and certain affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the institution's loans-to-one-borrower limit as discussed under "Loans to One Borrower." Federal regulations also prohibit loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and shareholders who own more than 10% of an institution, and their respective affiliates, unless such loans are approved in advance by a majority of the board of directors of the institution. Any "interested" director may not participate in the voting. The proscribed loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, is the greater of \$25,000 or 5% of capital and surplus up to \$500,000. Furthermore, we are prohibited from engaging in asset purchases or sales transactions with our officers, directors, or principal shareowners unless the transaction is on market terms and, if the transaction represents greater than 10% of the capital and surplus of the bank, a majority of the bank's disinterested directors has approved the transaction.

Indemnification payments to any director, officer or employee of either a bank or a BHC are subject to certain constraints imposed by the FDIC. Additionally, most transactions that the Bank engages in with an affiliate, including where an affiliate performs a service for the Bank, must be on similar terms and conditions as the Bank would get from a non-affiliate.

Incentive Compensation

In 2010, the federal banking agencies issued joint guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that appropriately balance risk and rewards in a manner that does not encourage imprudent risk taking, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. In accordance with the Dodd-Frank Act, the federal banking agencies prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions (generally institutions that have over \$1 billion in assets) and are deemed to be excessive, or that may lead to material losses.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Corporation, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's

ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The scope and content of the U.S. banking regulators' policies on executive compensation may continue to evolve in the future. It presently cannot be determined whether compliance with such policies will adversely affect the Corporation's ability to hire, retain and motivate its key employees.

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive based payment arrangements at specified regulated entities having at least \$1 billion in total assets, such as the Corporation and the Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure of incentive based compensation arrangements to regulators.

The agencies proposed initial regulations in April 2011 and proposed revised regulations during the second quarter of 2016 that would establish general qualitative requirements applicable to all covered entities. The proposed general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. As of this filing, the agencies have not finalized these proposed regulations.

In August 2015, the SEC adopted final rules implementing the pay ratio provisions of the Dodd-Frank Act by requiring companies to disclose the ratio of the compensation of its chief executive officer to the median compensation of its employees. Under SEC guidance issued in September 2017, companies such as the Corporation are able to use widely-recognized tests to determine who counts as an employee under the rule, use existing internal records such as payroll and tax information and describe the ratio as an estimate.

Loans to One Borrower

Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2021, the Bank's limit on aggregate secured loans-to-one-borrower was approximately \$388.6 million for loans secured by cash, readily marketable collateral, or real estate collateral qualifying under the Financial Code, and \$233.1 million for loans without such collateral or any collateral.

Deposit Insurance

Our deposits are insured up to applicable limits by the DIF of the FDIC. Deposit insurance is mandatory. We are required to pay assessments to the FDIC on a quarterly basis. The assessment amount is the product of multiplying the assessment base by the assessment rate.

The assessment base against which the assessment rate is applied to determine the total assessment due for a given period is the depository institution's average total consolidated assets during the assessment period less average tangible equity during that assessment period. Tangible equity is defined in the assessment rule as Tier 1 Capital and is calculated monthly, unless the insured depository institution has less than \$1 billion in assets, in which case the insured depository institution calculates Tier 1 Capital on an end-of-quarter basis. Parents or holding companies of other insured depository institutions are required to report separately from their subsidiary depository institutions.

The FDIC's methodology for setting assessment rates for individual banks has changed over time, although the broad policy is that lower-risk institutions should pay lower assessments than higher-risk institutions. The FDIC now uses a methodology, known as the "financial ratios method," that began to apply on July 1, 2016, in order to meet requirements of the Dodd-Frank Act. The statute established a minimum designated reserve ratio (the "DRR"), for the DIF of 1.35% of the estimated insured deposits and required the FDIC to adopt a restoration plan should the reserve ratio fall below 1.35%. The financial ratios took effect when the DRR exceeded 1.15%. The FDIC declared that the DIF reserve ratio exceeded 1.15% by the end of the second quarter of 2016. Accordingly, beginning July 1, 2016, the FDIC began to use the financial ratios method. This methodology assigns a specific assessment rate to each institution based on the institution's leverage capital, supervisory ratings, and information from the institution's call report. Under this methodology, the assessment rate schedules used to determine assessments due from insured depository institutions become progressively lower when the reserve ratio in the DIF exceeds 2% and 2.5%.

The Dodd-Frank Act also raised the limit for federal deposit insurance to \$250,000 for most deposit accounts and increased the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000.

The FDIC has authority to increase insurance assessments. A significant increase in insurance assessments would likely have an adverse effect on our operating expenses and results of operations. We cannot predict what insurance assessment rates will be in the future. Furthermore, deposit insurance may be terminated by the FDIC upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

Dividends

It is the Federal Reserve's policy that BHCs, such as the Corporation, should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that BHCs should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that BHCs should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our Class A and Class B Common Stock.

The Bank's ability to pay dividends to the Corporation is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its shareholders exceeding the lesser of a bank's (1) retained earnings; or (2) net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DFPI, make a distribution to its shareholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. If bank regulators determine that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution. The payment of dividends could, depending on the financial condition of a bank, be deemed to constitute an unsafe or unsound practice. Under the foregoing provision of the Financial Code, the amount available for distribution from the Bank to the Corporation was approximately \$138.0 million at December 31, 2021.

Approval of the Federal Reserve is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve, such as the Bank, if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits without regulatory and shareholder approval. The Bank is also prohibited under federal law from paying any dividend that would cause it to become undercapitalized.

Capital Adequacy Guidelines

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. Under the Dodd-Frank Act, the Federal Reserve must apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Under federal regulations, bank holding companies and banks must meet certain risk-based capital requirements. Effective as of January 1, 2015, the Basel III final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1" ("CET1"), (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expands the scope of the adjustments as compared to existing regulations. Beginning January 1, 2016, financial institutions were required to maintain a minimum "capital conservation buffer" to avoid restrictions on capital distributions such as dividends and equity repurchases and other payments such as discretionary bonuses to executive officers. The minimum capital conservation buffer has been phased-in over a four year transition period with minimum buffers of 0.625%, 1.25%, 1.875%, and 2.50% during 2016, 2017, 2018, and 2019, respectively.

As fully phased-in on January 1, 2019, Basel III subjects banks to the following risk-based capital requirements:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, or 7%;
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;

- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and
- a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

The Basel III final framework provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Basel III also includes, as part of the definition of CET1 capital, a requirement that banking institutions include the amount of Additional Other Comprehensive Income (“AOCI”), which primarily consists of unrealized gains and losses on available-for-sale securities, which are not required to be treated as other-than-temporary impairment, net of tax) in calculating regulatory capital. Banking institutions had the option to opt out of including AOCI in CET1 capital if they elected to do so in their first regulatory report following January 1, 2015. As permitted by Basel III, the Corporation and the Bank have elected to exclude AOCI from CET1.

In addition, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as “supplementary capital”) is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

Basel III changed the manner of calculating risk-weighted assets. New methodologies for determining risk-weighted assets in the general capital rules are included, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans; and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components. In particular, loans categorized as “high-volatility commercial real estate” loans (“HVCRE loans”), as defined pursuant to applicable federal regulations, are required to be assigned a 150% risk weighting, and require additional capital support.

In addition to the uniform risk-based capital guidelines and regulatory capital ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

In addition, the Dodd-Frank Act requires the federal banking agencies to adopt capital requirements that address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities.

Basel III is applicable to the Corporation and the Bank. Overall, the Corporation believes that implementation of the Basel III Rule has not had and will not have a material adverse effect on the Corporation’s or the Bank’s capital ratios, earnings, shareholder’s equity, or its ability to pay dividends, effect stock repurchases or pay discretionary bonuses to executive officers.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as “Basel IV”). Among other things, these standards revise the Basel Committee’s standardized approach for credit risk (including recalibrating risk weights and introducing new capital requirements for certain “unconditionally cancellable commitments,” such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Corporation or the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

In 2018, the federal bank regulatory agencies issued a variety of proposals and made statements concerning regulatory capital standards. These proposals touched on such areas as commercial real estate exposure, credit loss allowances under generally accepted accounting principles and capital requirements for covered swap entities, among others. Public statements by key agency officials have also suggested a revisiting of capital policy and supervisory approaches on a going-forward basis. In July 2019, the federal bank regulators adopted a final rule that simplifies the capital treatment for certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests for banking organizations,

such as the Corporation and the Bank, that are not subject to the advanced approaches requirements. We will be assessing the impact on us of these new regulations and supervisory approaches as they are proposed and implemented.

In February 2019, the U.S. federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase-in over a three-year period the Day 1 adverse regulatory capital effects of the current expected credit loss (or “CECL”) accounting standard. Additionally, in March 2020, the U.S. Federal bank regulatory agencies issued an interim final rule that provides banking organizations an option to delay the estimated CECL impact on regulatory capital for an additional two years for a total transition period of up to five years to provide regulatory relief to banking organizations to better focus on supporting lending to creditworthy households and businesses in light of recent strains on the U.S. economy as a result of the Coronavirus Disease 2019 (or “COVID-19”) pandemic. The capital relief in the interim is calibrated to approximate the difference in allowances under CECL relative to the incurred loss methodology for the first two years of the transition period using a 25% scaling factor. The cumulative difference at the end of the second year of the transition period is then phased in to regulatory capital at 25% per year over a three-year transition period. The final rule was adopted and became effective in September 2020. As a result, entities may gradually phase in the full effect of CECL on regulatory capital over a five-year transition period. The Corporation is not required to implement the CECL model until January 1, 2023.

Prompt Corrective Action

The federal banking regulators are required to take “prompt corrective action” with respect to capital-deficient institutions. Federal banking regulations define, for each capital category, the levels at which institutions are “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” Under applicable regulations, the Bank was “well capitalized,” which means it had a common equity Tier 1 capital ratio of 6.5% or higher; a Tier I risk-based capital ratio of 8.0% or higher; a total risk-based capital ratio of 10.0% or higher; a leverage ratio of 5.0% or higher; and was not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure.

As noted above, Basel III integrates the capital requirements into the prompt corrective action category definitions set forth below.

Capital Category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 (CET1) Capital Ratio	Leverage Ratio	Tangible Equity to Assets	Supplemental Leverage Ratio
Well Capitalized	10% or greater	8% or greater	6.5% or greater	5% or greater	n/a	n/a
Adequately Capitalized	8% or greater	6% or greater	4.5% or greater	4% or greater	n/a	3% or greater
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%	n/a	Less than 3%
Significantly Undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%	n/a	n/a
Critically Undercapitalized	n/a	n/a	n/a	n/a	Less than 2%	n/a

As of December 31, 2021, the Bank and Corporation exceeded all regulatory capital requirements and exceeded the minimum CET 1, Tier 1 and total capital ratio inclusive of the fully phased-in capital conservation buffer of 7.0%, 8.5%, and 10.5%, respectively.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. An institution’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution’s overall financial condition or prospects for other purposes.

In the event an institution becomes “undercapitalized,” it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution’s holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution’s assets at the time it became undercapitalized or the amount necessary to cause the institution to be “adequately capitalized.” The bank regulators have greater power in situations where an institution becomes “significantly” or “critically” undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the regulators' enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. A regulator has limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition to the federal regulatory capital requirements described above, the DFPI has authority to take possession of the business and properties of a bank in the event that the tangible stockholders' equity of a bank is less than the greater of (i) 3% of the bank's total assets or (ii) \$1.0 million.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets; (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (iii) compare problem asset totals to capital; (iv) take appropriate corrective action to resolve problem assets; (v) consider the size and potential risks of material asset concentrations; and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk.

Community Reinvestment Act

The CRA requires the federal bank regulatory agencies to assess all financial institutions that they regulate to determine whether these institutions are meeting the credit needs of the communities they serve, including their assessment area(s) (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices). In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "unsatisfactory." An institution's record in meeting the requirements of the CRA is based on a performance-based evaluation system, and is made publicly available and is taken into consideration in evaluating any applications it files with federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into nonbanking activities. Our Bank received a "satisfactory" rating in its most recent CRA evaluation.

In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators recommending changes to the CRA's regulations to reduce their complexity and associated burden on banks, and in December 2019, the FDIC and the Office of the Comptroller of the Currency (the "OCC") proposed for public comment rules to modernize the agencies' regulations under the CRA. In September 2020, the Board of Governors of the Federal Reserve System released for public comment its proposed rules to modernize CRA regulations. As of this issuance, the FRB has not moved forward in the rulemaking process. In July 2021, the FRB, FDIC, and the Office of the Comptroller of the Currency issued an interagency statement committing to joint agency action on CRA. This may signal that additional regulatory action on this issue will be forthcoming in 2022. We will continue to evaluate the impact of any changes to the CRA regulations.

Anti-Terrorism, Money Laundering Legislation and OFAC

The Bank is subject to the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"). These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and accounts and other relationships intended to guard against money laundering and terrorism financing. The principal requirements for an insured depository institution include (i) establishment of an anti-money laundering program that includes training and audit components, (ii) establishment of a "customer identification program" involving due diligence to confirm the identities of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities, (iii) the filing of currency transaction reports for deposits and withdrawals of large amounts of cash and suspicious activity reports for activity that might signify money laundering, tax evasion, or other criminal activities, (iv) additional precautions for accounts sought and managed

for non-U.S. persons and (v) verification and certification of money laundering risk with respect to private banking and foreign correspondent banking relationships. For many of these tasks a bank must keep records to be made available to its primary federal regulator. Anti-money laundering rules and policies are developed by the Financial Crimes Enforcement Network (“FinCEN”), but compliance by individual institutions is overseen by its primary federal regulator.

The Bank has established appropriate anti-money laundering and customer identification programs. The Bank also maintains records of cash purchases of negotiable instruments, files reports of certain cash transactions exceeding \$10,000 (daily aggregate amount), and reports suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the Bank Secrecy Act. The Bank otherwise has implemented policies and procedures to comply with the foregoing requirements.

The Treasury Department’s Office of Foreign Assets Control (“OFAC”), administers and enforces economic and trade sanctions against targeted foreign countries, persons, non-governmental organizations, associations, and criminal networks, among others, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons that are the target of sanctions, including the List of Specially Designated Nationals and Blocked Persons. Financial institutions are responsible for, among other things, blocking accounts of and transactions with sanctioned persons and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked and rejected transactions after their occurrence. If the Corporation or the Bank finds a name or other information on any transaction, account or wire transfer that is on an OFAC list or that otherwise indicates that the transaction involves a target of OFAC-administered sanctions program, the Corporation or the Bank generally must freeze or block such account or transaction, file a suspicious activity report, and notify the appropriate authorities. Banking regulators examine banks for compliance with the economic sanctions regulations administered by OFAC.

The Bank has implemented policies and procedures to comply with the foregoing requirements.

Data Privacy and Cybersecurity

The GLBA and the implementing regulations issued by federal regulatory agencies require financial institutions (including banks, insurance agencies, and broker/dealers) to adopt policies and procedures regarding the disclosure of nonpublic personal information about their customers to non-affiliated third parties. In general, financial institutions are required to explain to customers their policies and procedures regarding the disclosure of such nonpublic personal information and, unless otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. Specifically, the GLBA established certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Recent cyber-attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution also should have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution.

In November 2021, the federal bank regulatory agencies issued a joint rule establishing computer-security incident notification requirements for banking organizations and their service providers. This rule requires new notification requirements where a banking organization experiences a computer-security incident.

The Consumer Financial Protection Bureau

The Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”), which is an independent bureau with broad authority to regulate the consumer finance industry, including regulated financial institutions, nonbanks and others involved in extending credit to consumers. The CFPB has authority through rulemaking, orders, policy statements, guidance, and enforcement actions to administer and enforce federal consumer financial laws, to oversee several entities and market segments not previously under the supervision of a federal regulator, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive, or abusive. The federal consumer financial laws and all the functions and responsibilities associated with them, many of which were previously enforced by other federal regulatory agencies, were transferred to the CFPB on July 21, 2011. While the CFPB has the power to interpret, administer, and enforce federal consumer financial laws, the Dodd-Frank Act provides that the federal banking regulatory agencies continue to have examination and enforcement powers over the financial institutions that they supervise relating to the matters within the

jurisdiction of the CFPB if such institutions have less than \$10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce some federal consumer protection laws.

The Volcker Rule

On December 10, 2013, the federal regulators adopted final regulations to implement the proprietary trading and private fund prohibitions of the Volcker Rule under the Dodd-Frank Act. Under the final regulations, banking entities are generally prohibited, subject to significant exceptions from: (i) short-term proprietary trading as principal in securities and other financial instruments, and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds. Revisions to the Volcker Rule in 2019, that become effective in 2020, simplifies and streamlines the compliance requirements for banks that do not have significant trading activities. In 2020, the OCC, Federal Reserve, FDIC, SEC and Commodity Futures Trading Commission finalized further amendments to the Volcker Rule. The amendments include new exclusions from the Volcker Rule's general prohibitions on banking entities investing in and sponsoring private equity funds, hedge funds, and certain other investment vehicles (collectively "covered funds"). The amendments in the final rule, which became effective on October 1, 2020, clarify and expand permissible banking activities and relationships under the Volcker Rule.

Other Provisions of the Dodd-Frank Act

The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape. In addition to the reforms previously mentioned, the Dodd-Frank Act also:

- requires BHCs and banks to be both well capitalized and well managed in order to acquire banks located outside their home state and requires any BHC electing to be treated as a financial holding company to be both well managed and well capitalized;
- eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish *de novo* branches in any state that would permit a bank chartered in that state to open a branch at that location; and
- repeals Regulation Q, the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, many of the requirements called for have yet to be implemented and will likely be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various agencies, the full extent of the impact such requirements will have on financial institutions' operations is unclear.

Federal Home Loan Bank Membership

The Bank is a member of the FHLB. Each member of the FHLB is required to maintain a minimum investment in the Class B stock of the FHLB. The Board of Directors of the FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase the level of investment in the FHLB depends entirely upon the occurrence of a future event, we presently are unable to determine the extent of future required potential payments to the FHLB. Additionally, if a member financial institution fails, the right of the FHLB to seek repayment of funds loaned to that institution will take priority (a super lien) over the rights of all other creditors.

Other Laws and Regulations

Our operations are subject to several additional laws, some of which are specific to banking and others of which are applicable to commercial operations generally. For example, with respect to our lending practices, we are subject to the following laws and regulations, among several others:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act ("HMDA"), requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act, governing the use and provision of information to credit reporting agencies, certain identity theft protections, and certain credit and other disclosures;
- Fair Debt Collection Practices Act, governing how consumer debts may be collected by collection agencies;

- Real Estate Settlement Procedures Act, requiring certain disclosures concerning loan closing costs and escrows, and governing transfers of loan servicing and the amounts of escrows for loans secured by one-to-four family residential properties;
- Rules and regulations established by the National Flood Insurance Program;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Our deposit operations are subject to federal laws applicable to depository accounts, including:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts;
- Electronic Funds Transfer Act and Regulation E of the Federal Reserve, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

We are also subject to a variety of laws and regulations that are not limited to banking organizations. For example, in lending to commercial and consumer borrowers, and in owning and operating our own property, we are subject to regulations and potential liabilities under state and federal environmental laws. In addition, we must comply with privacy and data security laws and regulations at both the federal and state level.

We are heavily regulated by regulatory agencies at the federal and state levels. Like most of our competitors, we have faced and expect to continue to face increased regulation and regulatory and political scrutiny, which creates significant uncertainty for us, as well as for the financial services industry in general.

Enforcement Powers

The federal regulatory agencies have substantial penalties available to use against depository institutions and certain "institution-affiliated parties." Institution-affiliated parties primarily include directors, management, employees, and controlling shareholders of a financial institution, as well as, under limited circumstances, independent contractors and consultants, such as attorneys, accountants, appraisers, and others who participate in the conduct of the financial institution's affairs. An institution can be subject to an enforcement action due to the failure to timely file required reports, the filing of false or misleading information, or the submission of inaccurate reports, or engaging in other unsafe or unsound banking practices. Civil penalties may be as high as \$1,924,589 per day for violations.

The Financial Institution Reform Recovery and Enforcement Act provided regulators with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties and to terminate an institution's deposit insurance. It also expanded the power of banking regulatory agencies to issue regulatory orders. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification, or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate. The Dodd-Frank Act increases regulatory oversight, supervision and examination of banks, BHCs, and their respective subsidiaries by the appropriate regulatory agency.

Available Information

The Corporation maintains an internet site at www.silvergate.com on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. In addition, stockholders may access these reports and documents on the SEC's web site at www.sec.gov. The information on, or accessible through, our website or any other website cited in this Annual Report on Form 10-K is not part of, or incorporated by reference into, this Annual Report on Form 10-K and should not be relied upon in determining whether to make an investment decision.

Item 1A. Risk Factors

An investment in our common stock involves significant risks. You should consider carefully the risk factors included below together with all of the information included in or incorporated by reference into this Annual Report on Form 10-K, as the same may be updated from time to time by our future filings with the SEC under the Exchange Act, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have a material adverse effect

on our business, financial condition and results of operations. If any of the matters included in the following information about risk factors were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially and adversely affected. In such case, you may lose all or a substantial part of your investment. To the extent that any of the information contained in this document constitutes forward-looking statements, the risk factors below should be reviewed as cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See “Cautionary note regarding forward-looking statements.”

Risks Related to the Digital Currency Industry

The characteristics of digital currency have been, and may in the future continue to be, exploited to facilitate illegal activity such as fraud, money laundering, tax evasion and ransomware scams; if any of our customers do so or are alleged to have done so, it could adversely affect us.

Digital currencies and the digital currency industry are relatively new and, in many cases, lightly regulated or largely unregulated. Some types of digital currency have characteristics, such as the speed with which digital currency transactions can be conducted, the ability to conduct transactions without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, the irreversible nature of certain digital currency transactions and encryption technology that anonymizes these transactions, that make digital currency particularly susceptible to use in illegal activity such as fraud, money laundering, tax evasion and ransomware scams. Two prominent examples of marketplaces that accepted digital currency payments for illegal activities include Silk Road, an online marketplace on the dark web that, among other things, facilitated the sale of illegal drugs and forged legal documents using digital currencies and AlphaBay, another darknet market that utilized digital currencies to hide the locations of its servers and identities of its users. Both of these marketplaces were investigated and closed by U.S. law enforcement authorities. U.S. regulators, including the SEC, Commodity Futures Trading Commission (the “CFTC”), and Federal Trade Commission (the “FTC”), as well as non-U.S. regulators, have taken legal action against persons alleged to be engaged in Ponzi schemes and other fraudulent schemes involving digital currencies. In addition, the Federal Bureau of Investigation has noted the increasing use of digital currency in various ransomware scams.

While we believe that our risk management and compliance framework, which includes thorough reviews we conduct as part of our due diligence process (either in connection with onboarding new customers or monitoring existing customers), is reasonably designed to detect any such illicit activities conducted by our potential or existing customers (or, in the case of digital currency exchanges, their customers), we cannot ensure that we will be able to detect any such illegal activity in all instances. Because the speed, irreversibility and anonymity of certain digital currency transactions make them more difficult to track, fraudulent transactions may be more likely to occur. We or our banking counterparties may be specifically targeted by individuals seeking to conduct fraudulent transfers, and it may be difficult or impossible for us to detect and avoid such transactions in certain circumstances. If one of our customers (or in the case of digital currency exchanges, their customers) were to engage in or be accused of engaging in illegal activities using digital currency, we could be subject to various fines and sanctions, including limitations on our activities, which could also cause reputational damage and adversely affect our business, financial condition and results of operations. For more information regarding the regulatory agencies and regulations to which we are subject, see “—Risks Related to Regulation”. Lastly, we may experience a reduction in our deposits if such an incident were to impact one of our customers, even if there was no wrongdoing on our part.

Risks Related to Our Digital Currency Initiative

We rely heavily on the success of the digital currency industry, the development and acceptance of which is subject to a variety of factors that are difficult to evaluate.

We have grown rapidly because of our initiative to provide traditional banking and other services to customers in the digital currency industry. We have created a unique, technology-led infrastructure platform, including the SEN and cash management solutions, to facilitate cash transactions for the Bank’s digital currency deposit customers. This platform has driven growth of a customer base that includes some of the largest and fastest growing companies within the digital currency industry, consisting primarily of digital currency exchanges, institutional investors and other industry participants. See “Item 1. Business—Digital Currency Customers.”

The businesses in which these customers engage involve digital currencies such as bitcoin, other technologies underlying digital currencies such as blockchain, and services associated with digital currencies and blockchain. The digital currency industry includes a diverse set of businesses that use digital currencies for different purposes and provide services to others who use digital currencies. This is a new and rapidly evolving industry, and the viability and future growth of the industry and adoption of digital currencies and the underlying technology is subject to a high degree of uncertainty, including based upon the adoption of the technology, regulation of the industry, and price volatility, among other factors. Because the sector is relatively new, your investment may be exposed to additional risks which are not yet known or quantifiable.

Bitcoin, the first widely used digital currency, and many other digital currencies were designed to function as a form of money. However, digital currencies have only recently become selectively accepted as a means of payment for goods and

services and then only by some retail and commercial businesses. Use of digital currency by consumers as a form of payment is limited. Some digital currencies were built for uses other than as a substitute for fiat money. For example, the Ethereum network is intended to permit the development and use of smart contracts, which are programs that execute on a blockchain. The digital asset known as Ether was designed to facilitate transactions involving smart contracts on the Ethereum network. Many of these digital currencies are listed on digital currency exchanges and are traded and purchased as investments by a variety of market participants.

Other factors affecting the further development of the digital currency industry and our business include, but are not limited to:

- the adoption and use of digital currencies, including adoption and use as a substitute for fiat currency or for other uses, which may be adversely impacted by continued price volatility;
- the use of digital currencies, or the perception of such use, to facilitate illegal activity such as fraud, money laundering, tax evasion and ransomware scams by our customers;
- heightened risks to digital currency businesses, such as digital currency exchanges, of hacking, malware attacks, and other cyber-security risks, which can lead to significant losses;
- developments in digital currency trading markets, including decreasing price volatility of digital currencies, resulting in narrowing spreads for digital currency trading and diminishing arbitrage opportunities across digital currency exchanges, or increased price volatility, which could negatively impact our customers and therefore our deposits, either of which in turn may reduce the benefits of the SEN and negatively impact our business; and
- the maintenance and development of the software protocol of the digital currency networks.

If any of these factors, or other factors, slows development of the digital currency industry, it could adversely affect our digital currency initiative and therefore have a material adverse effect on our business, financial condition and results of operation.

We may not be able to implement aspects of our growth strategy, which may impact our position as the leading provider of innovative financial infrastructure solutions and services to participants in the digital currency industry and adversely affect our ability to maintain our recent growth and earnings trends.

We have grown rapidly, primarily through organic growth related to our digital currency initiative. We may not be able to execute on aspects of our growth strategy, which may impair our ability to sustain this rate of growth or prevent us from growing at all.

The success of new or improved solutions and services depends on several factors, including costs, timely completion, regulatory approvals, the introduction, reliability and stability of our solutions and services, differentiation of new or improved solutions and market acceptance. There can be no assurance that we will be successful in developing and marketing our digital currency initiative in a timely manner or at all, or that our new or improved solutions and services will adequately address market demands. Market acceptance and adoption of solutions and services within our digital currency initiative will depend on, among other things, the solutions and services demonstrating a real advantage over existing products and services, the success of our sales and marketing teams in creating awareness of our solutions and services, competitive pricing of such solutions and services, customer recognition of the value of our technology and the general willingness of potential customers to try new technologies. In particular, if we are unable to achieve sufficient market adoption of the SEN, our growth strategy may be adversely affected.

Various factors, such as general economic conditions, conditions in the digital currency industry and competition with other financial institutions and infrastructure service providers, may impede or preclude the growth of our operations. Our business and the growth of our operations are dependent on, among other things, the continued success and growth of the SEN. If conditions in digital currency markets change such that certain trading strategies currently employed by our institutional investor customers become less profitable, the benefits of the SEN and the API may be diminished, resulting in a decrease in our deposit balances and adversely impacting our growth strategy. In addition, if a competitor or another third party were to launch an alternative to the SEN (such as the Federal Reserve's recently announced plan to develop a virtually real time payment system for banks, which is expected to be available as early as 2023), we could lose noninterest bearing deposits and our business, financial condition, results of operations and growth strategy could be adversely impacted. Further, we may be unable to attract and retain experienced employees, which could adversely affect our growth.

The success of our strategy also depends on our ability to manage our growth effectively, which depends on many factors, including our ability to adapt our regulatory, compliance, credit, operational, technology and governance infrastructure to accommodate expanded operations, particularly as these relate to the digital currency industry. If we are successful in continuing our growth, we cannot assure you that further growth would offer the same levels of potential profitability, or that we would be successful in controlling costs and maintaining asset quality in the face of that growth. Accordingly, an inability to maintain growth, or an inability to effectively manage growth, could have a material adverse effect on our business, financial

condition and results of operations. The further development and acceptance of digital currencies and blockchain technology are subject to a variety of factors that are difficult to evaluate, as discussed above. The slowing or stopping of the development or acceptance of digital currency networks and blockchain technology may adversely affect our ability to continue to grow and capitalize on our digital currency strategy.

The Bank has several large depositor relationships that are concentrated in the digital currency industry generally and among digital currency exchanges in particular, the loss of any of which could force us to fund our business through more expensive and less stable sources.

As of December 31, 2021, the Bank's 10 largest depositors accounted for \$6.5 billion in deposits, or approximately 45.3% of the Bank's total deposits. Deposits from digital currency exchanges represent approximately 58.0% of the Bank's overall deposits and are held by approximately 94 exchanges. Digital currency exchanges have discretion over which financial institution holds deposits on behalf of its customers. As a result, the Bank is exposed to high customer concentration with our exchange customers. A decision by the customers of an exchange to exit the exchange or a decision by an exchange to withdraw deposits or move deposits to our competitors could result in substantial changes in our deposit base. Exchanges present additional risks because they have been frequent targets and victims of fraud and cyber attacks and the failure or exit of one or more exchanges as customers could have a material adverse effect on our business, financial condition and results of operations. In addition, withdrawals of deposits by any one of our largest depositors could result in a decrease in our cash and cash equivalents and a sale of securities which would negatively impact our net interest income.

Our digital currency initiative has contributed significantly to an increase in our noninterest bearing deposits, which has driven the Bank's funding costs to levels that may not be sustainable.

Our digital currency initiative has contributed significantly to an increase in our noninterest bearing deposits, and has allowed us to generate attractive returns on lower risk assets through increased investments in interest earning deposits in other banks and securities, as well as funding limited loan growth. Our noninterest bearing deposits as a percentage of total deposits was 99.5% as of December 31, 2021, which is largely attributable to our digital currency initiative. Our future growth may be adversely impacted if we are unable to retain and grow this strong, low-cost deposit base. There may be competitive pressures to pay higher interest rates on deposits to our digital currency customers, which could increase funding costs and compress net interest margins. Further, even if we are otherwise able to grow and maintain our noninterest bearing deposit base, our deposit balances may still decrease if our digital currency customers are offered more attractive returns from our competitors. If our digital currency customers withdraw deposits, we could lose a low cost source of funds which would likely increase our funding costs and reduce our net interest income and net interest margin. These factors could have a material adverse effect on our business, financial condition and results of operations.

The prices of digital currencies are extremely volatile. Fluctuations in the price of various digital currencies may cause uncertainty in the market and could negatively impact trading volumes of digital currencies and therefore the extent to which participants in the digital currency industry demand our services and solutions, which would adversely affect our business, financial condition and results of operations.

The value of digital currencies is based in part on market adoption and future expectations, which may or may not be realized. As a result, the prices of digital currencies are highly speculative and have been subject to dramatic fluctuations to date. The impact that changes in prices and/or trading volume of digital currencies have on our deposit balance from customers in the digital currency industry is unpredictable, as any reduction in deposits attributable to such changes may be amplified or mitigated by other developments, such as the onboarding of new customers, loss of existing customers and changes in our customers' operational and trading strategies. We have experienced deposit fluctuations over the last few years which have been correlated with or contrary to the price and/or trading volume of digital currencies at various times. Volatility in the prices and/or trading volume of digital currencies may adversely impact the amount of such deposits in the future, our growth strategy and the demand for our services and therefore have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Cybersecurity and Technology

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

Our computer systems and network infrastructure, including the SEN and API, could be vulnerable to hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal sources. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations.

Our operations are also dependent upon our ability to protect our computer systems and network infrastructure, including the SEN, the API, and our other online banking systems, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers. We could also become the target of various cyberattacks as a result of our focus on the digital currency industry. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as acts of cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a system breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have a material adverse effect on our business, financial condition and results of operations.

We may not have the resources to keep pace with rapid technological changes in the industry or implement new technology effectively.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Our future success will depend, at least in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could impair our ability to realize the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

The technology relied upon by the Company, including the SEN, the API and our other on-line banking systems, may not function properly, which may have a material impact on the Company's operations and financial conditions. The importance of the SEN, the API and our other on-line banking systems to the Company's operations means that any technological problems in its functionality would have a material adverse effect on the Company's operations, business model and growth strategy.

Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop, on a cost-effective basis, systems that will enable us to keep pace with such developments. As a result, our larger competitors may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services. The ability to keep pace with technological change is important and the failure to do so could adversely affect our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience operational or other systems difficulties, terminate their services or fail to comply with banking regulations.

We outsource some of our operational activities to third parties for certain services, including, but not limited to, core systems support, informational website hosting, internet services, online account opening and other processing services. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party service providers. As a result, if these third-party service providers experience difficulties, are subject to cybersecurity breaches, or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period, our business, financial condition and results of operations could be adversely affected. Even if we can replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

In addition, the Bank's primary federal regulator, the Federal Reserve, has issued guidance outlining the expectations for third-party service provider oversight and monitoring by financial institutions. Our operations could be interrupted if any of our third-party service providers fail to comply with banking regulations, which could adversely affect our business, financial condition and results of operations.

Risks Related to Our Traditional Banking Business

As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

Our business and operations, which primarily consist of borrowing money from clients in the form of deposits, investing in securities and interest earning deposits in other banks, and lending money to clients in the form of loans, are sensitive to

general business and economic conditions in the United States. We solicit deposits and originate loans throughout the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium- and long-term fiscal outlook of the federal government and future tax rates is a concern for businesses, consumers and investors in the United States. Adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Unpredictable future developments related to or resulting from the COVID-19 pandemic could materially and adversely affect our business and results of operations.

Because there have been no comparable recent global pandemics that resulted in a similar global impact, we do not yet know the full extent of the COVID-19 pandemic's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work from home arrangements, third party providers' ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic. We are continuing to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on us. However, if the pandemic continues to spread or otherwise results in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations and cash flows as well as our regulatory capital and liquidity ratios could be materially adversely affected and many of the risks described in our 2021 Form 10-K will be heightened.

We face strong competition from financial services companies and other companies that offer banking services.

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, nonbank financial services companies and other financial institutions operating both within our market areas and nationally, and in respect of our digital currency initiative we also compete with other entities in the digital currency industry, including a limited number of other banks providing services to the digital currency industry and digital currency exchanges. Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. Our inability to compete successfully in the markets in which we operate could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to measure and limit our credit risk adequately, which could lead to unexpected losses.

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid in a timely manner or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. Our risk management practices, such as monitoring the concentration of our loans within specific industries, and our credit approval practices may not adequately reduce credit risk. A failure to measure and limit the credit risk associated with our loan portfolio effectively could lead to unexpected losses and have a material adverse effect on our business, financial condition and results of operations.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We maintain an allowance for loan losses that represents management's judgment of probable losses and risks inherent in our loan portfolio. The level of the allowance reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of our allowance for loan losses is inherently highly subjective and requires management to make significant estimates of and assumptions regarding current credit risks, all of which may undergo material changes. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Because a significant portion of our loan portfolio held-for-investment is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2021, approximately \$381.0 million, or 42.6%, of our total gross loans held-for-investment were loans with real estate as a primary or secondary component of collateral. The market value of real estate can fluctuate significantly in a short period of time. As a result, adverse developments affecting real estate values and the liquidity of real estate in our primary markets could increase the credit risk associated with our loan portfolio, and could result in losses that adversely affect our credit quality, financial condition and results of operations. Additionally, commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may

have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have a material adverse effect on our business, financial condition and results of operations.

Our nascent SEN Leverage product has unique risks and may not perform to our expectations in the future, which would adversely affect our business, financial condition and results of operations.

Our SEN Leverage product, which was piloted during 2020, is now one of the Company's core lending products. SEN Leverage currently allows certain of our SEN customers to borrow US dollars against the value of the digital currency bitcoin.

The loan to value ("LTV") ratio of a SEN Leverage loan fluctuates in relation to the value of bitcoin held as collateral, which has historically been volatile and which serves as the collateral for these loans. There is no assurance that customers will be able to timely provide additional collateral under these loans or reduce the principal amount of the loan to maintain the loan's required LTV ratio in a scenario where the value of the bitcoin, serving as the collateral for the loan, drops precipitously.

We utilize third party custodians to hold the bitcoin serving as the collateral of the SEN Leverage loans. Custodians of digital currency present additional risks because they are frequent targets and victims of cyber-attacks, which could impact the custodian's timely delivery of digital currency collateral to us. If a SEN Leverage loan customer defaults on its loan and the bitcoin collateral is not liquidated in a timely manner, our business, financial condition and results of operations could be adversely impacted.

In the case of defaults on loans secured by real estate, we may be forced to foreclose on the collateral, subjecting us to the costs and potential risks associated with the ownership of the real property, or consumer protection initiatives or changes in state or federal law that may substantially raise the cost of foreclosure or prevent us from foreclosing at all.

We may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property for some period, in which case we would be exposed to the risks inherent in the ownership of real estate. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate, or write-downs in the value of other real estate owned, could have a material adverse effect on our business, financial condition and results of operations.

Additionally, consumer protection initiatives or changes in state or federal law may substantially increase the time and expense associated with the foreclosure process or prevent us from foreclosing at all. Some states in recent years have either considered or adopted foreclosure reform laws that make it substantially more difficult and expensive for lenders to foreclose on properties in default. If new state or federal laws or regulations are ultimately enacted that significantly raise the cost of foreclosure or raise outright barriers, such laws could have a material adverse effect on our business, financial condition and results of operation.

We may not be able to protect our intellectual property rights, and may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may violate our intellectual property rights. To counter infringement or unauthorized use, litigation may be necessary to enforce or defend our intellectual property rights, to protect our trade secrets and/or to determine the validity and scope of our own intellectual property rights or the proprietary rights of others. Such litigation can be expensive and time consuming, which could divert management resources and harm our business and financial results. Potential competitors may have the ability to dedicate greater resources to litigate intellectual property rights than we can. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Our concentration of large loans to a limited number of borrowers may increase our credit risk.

As of December 31, 2021, our 10 largest borrowing relationships accounted for approximately 60.1% of our total loans held-for-investment. This high concentration of borrowers presents a risk to our lending operations. If any one of these borrowers becomes unable to repay its loan obligations because of economic or market conditions, or personal circumstances, such as divorce or death, our nonaccrual loans and our allowance for loan and lease losses could increase significantly, which could have a material adverse effect on our assets, business, financial condition and results of operations.

A lack of liquidity could impair our ability to fund operations and adversely impact our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, sales of our investment securities, sales of loans or other sources could have a substantial negative effect on our liquidity and our ability to continue our growth strategy.

Our most important source of funds is deposits. As of December 31, 2021, approximately \$14.2 billion, or 99.5%, of our total deposits were noninterest bearing demand accounts. These deposits are subject to potentially dramatic fluctuations due to certain factors that may be outside of our control, such as a loss of confidence by customers in us or the banking sector

generally, customer perceptions of our financial health and general reputation, any of which could result in significant outflows of deposits within short periods of time increasing our funding costs and reducing our net interest income and net income. Substantially all of these noninterest bearing demand accounts are deposits from our customers in the digital currency industry.

Additional liquidity is provided by our ability to borrow from the FHLB of San Francisco and the FRB. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by one or more adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

We are subject to interest rate risk as fluctuations in interest rates may adversely affect our earnings.

Most of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest earning assets, such as loans and investment securities, and interest paid by us on our interest bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. In either case, if market interest rates should move contrary to our position, this gap will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens; that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Any future failure to maintain effective internal control over financial reporting could impair the reliability of our financial statements, which in turn could harm our business, impair investor confidence in the accuracy and completeness of our financial reports and our access to the capital markets and cause the price of our common stock to decline and subject us to regulatory penalties.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on that system of internal control. Our internal control over financial reporting consists of a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (“GAAP”). If we fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and in a timely manner, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports, we could be subject to regulatory penalties and the price of our common stock may decline.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider critical because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events or regulatory views concerning such analysis differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures, in each case resulting in our need to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock and adversely affect our business, financial condition and results of operations.

We could recognize losses on investment securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

We invest a significant portion of our total assets (53.9% as of December 31, 2021) in investment securities with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested and managing interest rate risk. As of December 31, 2021, the fair value of our available-for-sale investment securities portfolio was \$8.6 billion, which included gross unrealized losses of \$58.5 million and gross unrealized gains of \$44.8 million. Factors beyond our control can significantly and adversely influence the fair value of securities in our portfolio. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying

collateral, we may recognize realized and/or unrealized losses in future periods, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer, employee or third-party fraud.

Employee errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

In addition, we rely heavily upon information supplied by third parties. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms that do not comply with our general underwriting standards. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the resulting monetary losses we may suffer, which could adversely affect our business, financial condition and results of operations.

We rely heavily on our executive management team and other key employees, and we could be adversely affected by the unexpected loss of their services.

We are led by an experienced core management team with substantial experience in the markets that we serve, and our operating strategy focuses on providing products and services through long-term relationship managers and ensuring that our largest clients have relationships with our senior management team. Accordingly, our success depends in large part on the performance of these key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. If any of our executive officers, other key personnel or directors leaves us or our Bank, our financial condition and results of operations may suffer because of his or her skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified personnel to replace him or her.

Negative public opinion regarding the Company or failure to maintain our reputation in the communities we serve could adversely affect our business and prevent us from growing our business.

If our reputation is negatively affected by the actions of our employees or otherwise, including because of a successful cyberattack against us or other unauthorized release or loss of customer information, we may be less successful in attracting new talent and customers or may lose existing customers, and our business, financial condition and results of operations could be adversely affected. In addition, if the reputation of the digital currency industry as a whole is harmed, including due to events such as cybersecurity breaches, scams perpetrated by bad actors or other unforeseen developments as a result of the evolving regulatory landscape of the digital currency industry, our reputation may be negatively affected due to our connection with the digital currency industry, which could adversely affect our business, financial condition and results of operations. Our exposure to and interactions with the digital currency industry put us at a higher risk of media attention and scrutiny. Further, negative public opinion can expose us to litigation and regulatory action and delay and impede our efforts to implement our expansion strategy, which could further adversely affect our business, financial condition and results of operations.

We may not be able to raise the additional capital needed, in absolute terms or on terms acceptable to us, to fund our growth strategy in the future if we continue to grow at our current pace.

As of December 31, 2021, our total consolidated assets were \$16.0 billion, an increase of \$10.4 billion, or 186.5%, from December 31, 2020. In light of our rapid growth and to sustain our growth strategy, we will likely need to raise additional capital in the future, though the timing and amounts of future capital needs are presently unknown.

We believe that we have sufficient capital to meet our capital needs for our immediate growth plans. However, we will continue to need capital to support our longer-term growth plans. If capital is not available on favorable terms when we need it, we will have to either issue common stock or other securities on less than desirable terms or reduce our rate of growth until market conditions become more favorable. Any such events could have a material adverse effect on our business, financial condition and results of operations.

The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could adversely affect customer and investor confidence, our role in the digital currency ecosystem, our costs of funds and FDIC insurance costs, our ability to make acquisitions, and our business, results of operations and financial condition.

Risks Related to Regulation

There is substantial legal and regulatory uncertainty regarding the regulation of digital currencies and digital currency activities. This uncertainty or adverse regulatory changes may inhibit the growth of the digital currency industry, including our customers, and therefore have a material adverse effect on the digital currency initiative.

The U.S. Congress, U.S. state legislatures, and a number of U.S. federal and state regulators and law enforcement agencies, including FinCEN, U.S. federal banking regulators, SEC, CFTC, the Financial Industry Regulatory Authority (“FINRA”), the CFPB, the Department of Justice, the Department of Homeland Security, the Federal Trade Commission, the Federal Bureau of Investigation, the Internal Revenue Service (the “IRS”), and state banking regulators, state financial services regulators, and states attorney generals, have been examining the operations of digital currency networks, exchanges, and digital currency businesses, with particular focus on the extent to which digital currencies can be used for illegal activities, including but not limited to laundering the proceeds of illegal activities, funding criminal or terrorist enterprises, engaging in fraudulent activities (see “—Risks Related to the Digital Currency Industry”), as well as whether and the extent to which digital currency businesses should be subject to existing or new regulation, including those applicable to banks, securities intermediaries, derivatives intermediaries, or money transmitters.

For example, FinCEN requires firms engaged in the business of administration, exchange, or transmission of a virtual currency to register with FinCEN under its money services business licensing regime. The New York DFS has established a licensing regime for businesses involved in virtual currency business activity in or involving New York, commonly known as BitLicense regime. The SEC and CFTC have each issued formal and informal guidance on the applicability of securities and derivatives regulations to digital currencies and digital currency activities. The SEC has suggested that, depending on the circumstances, an initial coin offering (“ICO”) may constitute securities offerings subject to the provisions of the Securities Act of 1933, as amended (the “Securities Act”), and the Exchange Act, and that some ICOs in the past have been illegal, which could, in turn, result in regulatory actions or other scrutiny against our customers or us. The SEC has also stated that venues that permit trading of tokens that are deemed securities are required to either register as national securities exchanges under Section 6 of the Exchange Act or obtain an exemption. If we or any of our digital currency customers are subject to regulatory actions relating to illegal securities offerings or are required to register as a national securities exchange under the Exchange Act, we may experience a substantial loss of deposits and our business may be materially adversely affected.

Many state and federal agencies have also issued consumer advisories regarding the risks posed to users and investors in digital currencies. U.S. federal and state legislatures, regulators and law enforcement agencies continue to develop views and approaches to a wide variety of digital currencies and activities involved in digital currencies and it is likely that, as the legal and regulatory landscape develops, additional regulatory requirements could apply to digital currency businesses, including our digital currency customers and us. U.S. state and federal, and foreign regulators and legislatures have taken legal actions against digital currency businesses or adopted restrictions in response to adverse publicity arising from hacks, consumer harm, criminal activity, or other activities related to digital currencies. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of the digital currency industry or the ability of our customers to continue to operate. This may significantly impede the viability or growth of our existing funding sources based on deposits from digital currency business as well as our digital currency initiative. In addition, we may become subject to additional regulatory scrutiny as a result of certain aspects of our growth strategy, including our plans to develop credit products for the purchase of digital currency, custodian services and to expand our international customer base.

Digital currencies and digital currency related activities also currently face an uncertain regulatory landscape in many foreign jurisdictions such as the European Union, China, the United Kingdom, Australia, Japan, Russia, Israel, Poland, India, Hong Kong, Canada and Singapore. Various foreign jurisdictions may adopt laws regulations or directives that affect digital currencies. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of digital currencies by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital currency industry in these jurisdictions as well as in the United States and elsewhere, or otherwise negatively affect the digital currency industry or our customers, which may adversely affect our digital currency initiative and could therefore result in a material adverse effect on our business, financial condition, results of operations and growth prospects.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

Federal and state regulatory agencies frequently adopt changes to their regulations or change the way existing regulations are applied. Regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant

management attention and resources to make any necessary changes to operations to comply and could have a material adverse effect on our business, financial condition and results of operations.

Because of the Dodd-Frank Act and related rulemaking, the Bank and the Company are subject to more stringent capital requirements.

The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial condition.

Federal and state banking agencies periodically conduct examinations of our business, including our compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject based on such examinations could adversely affect us.

As part of the bank regulatory process, the Federal Reserve and the DFPI periodically conduct examinations of our business, including compliance with laws and regulations. If, based on an examination, one of these federal banking agencies were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, asset sensitivity, risk management or other aspects of any of our operations have become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take such remedial actions as it deems appropriate. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected.

Our regulators may limit current or planned activities related to the digital currency industry.

The digital currency industry is relatively new and is subject to significant risks. The digital currency initiative involves customers and activities with which regulators, including our primary banking regulators the Federal Reserve and DFPI, may be less familiar and which they may consider higher risk than those involving more established industries. While we have consulted, and will continue to consult with, our regulators regarding our activities involving digital currency industry customers and the digital currency initiative, in the future a regulator may determine to limit or restrict one or more of these activities. Such actions could have a material adverse effect on our business, financial condition, or results of operations.

Financial institutions, such as the Bank, face risks of noncompliance and enforcement actions related to the Bank Secrecy Act and other anti-money laundering statutes and regulations (in particular, as such statutes and regulations relate to the digital currency industry).

The Bank Secrecy Act, USA Patriot Act, FinCEN and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. To administer the Bank Secrecy Act, FinCEN is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and the IRS. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department's Office of Foreign Assets Control.

Our compliance with the anti-money laundering laws is in part dependent on our ability to adequately screen and monitor our customers for their compliance with these laws. Customers associated with our digital currency initiative may represent an increased compliance risk given the prevalence of money laundering activities using digital currencies. We have developed enhanced procedures to screen and monitor these customers, which include, but are not limited to, system monitoring rules tailored to digital currency activities, a system of "red flags" specific to various customer types and activities, the development of and investment in proprietary technology tools to supplement our third-party transaction monitoring system, customer risk scoring with risk factors specific to the digital-currency industry, and the use of various blockchain monitoring tools. We believe these enhanced procedures adequately screen and monitor our customers associated with the digital currency initiative for their compliance with anti-money laundering laws; however, given the rapid developments in digital currency markets and technologies, there can be no assurance that these enhanced procedures will be adequate to detect or prevent money laundering activity. If regulators determine that our enhanced procedures are insufficient to address the financial crimes risks posed by digital currencies, the digital currency initiative may be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations.

To comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and de novo branching.

We are subject to anticorruption laws, including the U.S. Foreign Corrupt Practices Act (“FCPA”) and we may be subject to other anti-corruption laws, as well as anti-money laundering and sanctions laws and other laws governing our operations, to the extent our business expands to non-U.S. jurisdictions. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, financial condition and results of operations.

We continue to pursue deposit sourcing opportunities outside of the United States. We are currently subject to anti-corruption laws, including the FCPA. The FCPA and other applicable anti-corruption laws generally prohibit us, our employees and intermediaries from bribing, being bribed or making other prohibited payments to government officials or other persons to obtain or retain business or gain other business advantages. We may also participate in collaborations and relationships with third parties whose actions could potentially subject us to liability under the FCPA or other jurisdictions’ anti-corruption laws. There is no assurance that we will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the FCPA. If we are not in compliance with the FCPA or other anti-corruption laws, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on our business, financial condition and results of operations. Similarly, any investigation of any potential violations of the FCPA or other anti-corruption laws by authorities in the United States or other jurisdictions where we conduct business could also have an adverse impact on our reputation, business, financial condition and results of operations.

Increases in FDIC insurance premiums could adversely affect our earnings and results of operations.

The deposits of our Bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments as determined according to the calculation described in “Item 1. Business—Supervision and Regulation—Deposit Insurance.” Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to influence the U.S. money supply and credit conditions. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The monetary policies of the Federal Reserve are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. government. Future monetary policies cannot be predicted, and although we cannot determine the effects of such policies on us now, such policies could adversely affect our business, financial condition and results of operations.

Effective December 31, 2021, the Company no longer qualified as an “an emerging growth company” and the reduced disclosure requirements applicable to emerging growth companies no longer apply, which will increase the Company’s costs and demands on management.

As a result of the Company’s public float (the market value of the Company’s common stock held by non-affiliates) as of June 30, 2021, the Company became a large accelerated filer as of December 31, 2021 and no longer qualifies as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012.

As an emerging growth company and a smaller reporting company, the Company previously had the option to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, reduced disclosure obligations regarding executive compensation in the Company’s periodic reports and proxy statements and exemptions related to certain “Say-on-Pay” rules under Section 14A of the Exchange Act, including requirements to hold a nonbinding advisory vote on named executive officer compensation, the frequency of such votes and arrangements with named executive officers regarding compensation based on or related to an acquisition, merger, or similar transaction.

Further, as an emerging growth company, the Company was not subject to Section 404(b) of the Sarbanes Oxley Act. In particular, the Company must perform system and process evaluation, document its controls and perform testing of its key controls over financial reporting to allow management to assess, and, its independent public accounting firm to report, on the effectiveness of the Company’s internal control over financial reporting. Its testing, or the subsequent testing by the Company’s independent public accounting firm, may reveal deficiencies in its internal control over financial reporting that are deemed to be material weaknesses. Preparing such attestation report and the cost of compliance with reporting requirements that the Company has not previously implemented will increase the Company’s expenses and require significant management time. In addition, material weaknesses in internal controls could also cause investors to lose confidence in the Company’s reported financial information, which could have a negative effect on the trading price of the Company’s common stock.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may affect the market price and trading volume of our common stock, most of which are outside of our control.

The stock market and the market for financial institution stocks has experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

You may experience future dilution as a result of future equity offerings.

We may require additional capital in the future to continue our planned growth. To the extent we raise additional capital by issuing additional shares of our common stock or other securities convertible into, or exchangeable for, our common stock, you may experience substantial dilution.

Our common stock is subordinate to our existing and future indebtedness and preferred stock.

Our common stock ranks junior to all of our existing and future indebtedness and other non-equity claims with respect to assets available to satisfy claims against us, including claims in the event of our liquidation. We may incur additional indebtedness in the future to increase our capital resources or if our total capital ratio or the total capital ratio of the Bank falls below the required minimums. Furthermore, our common stock is subordinate to our outstanding preferred stock and any other series of preferred stock we may issue in the future.

While our growth strategy is focused on the digital currency industry, investors should not expect that the value of our common stock to be correlated with the value of digital currencies. Our common stock is not a proxy for gaining exposure to digital currencies.

While our growth strategy is focused on the digital currency industry and the majority of the Bank's deposits are from digital currency related activities, our common stock is not a proxy for gaining exposure to digital currencies. The impact of fluctuations in prices and/or trading volume of digital currencies on our deposit balance from customers in the digital currency industry and, by extension, our profitability, is unpredictable, and the price of our common stock may not be correlated to the prices of digital currencies.

Though not a proxy for gaining exposure to digital currencies, market participants may view our common stock as such, which could in turn attract investors seeking to buy or sell short our common stock in order to gain such exposure, therefore increasing the price volatility of our common stock. There may also be a heightened level of speculation in our common stock as a result of our exposure to the digital currency industry. For more information regarding the volatility of digital currencies, see “—Risks Related to Our Digital Currency Initiative—The prices of digital currencies are extremely volatile.” Fluctuations in the price of various digital currencies may cause uncertainty in the market and could negatively impact trading volumes of digital currencies and therefore the extent to which participants in the digital currency industry demand our services and solutions, which would adversely affect our business, financial condition and results of operations.”

Provisions in our governing documents and Maryland law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.

In addition, certain provisions of Maryland law may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or its holding company. These laws include the BHC Act and the CBCA. These laws could delay or prevent an acquisition.

Our common stock is not an insured deposit and is subject to risk of loss.

Our common stock is not a savings account, deposit account or other obligation of any of the Bank or any of our other subsidiaries and will not be insured or guaranteed by the FDIC or any other government agency. Investment in our common stock is subject to risk, including possible loss.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our headquarters office is currently located at 4250 Executive Square, La Jolla, California 92037. The following table summarizes pertinent details of our principal leased office property.

Location	Owned/ Leased	Lease Expiration	Type of Office
4250 Executive Square, Suite 300 La Jolla, CA 92037	Leased	10/31/2027	Headquarters and Branch

We believe that the leases to which we are subject have terms that are generally consistent with prevailing market terms. None of the leases involve any of our directors, officers or beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

Item 3. Legal Proceedings

We are not currently subject to any material legal proceedings. We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

In the current opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Shareholder Information***

The Class A Common Stock of the Company has been publicly traded since November 7, 2019 and is currently traded on the New York Stock Exchange under the symbol SI. As of February 21, 2022, there were approximately 138 holders of record of our Class A Common Stock.

Dividends

Holders of our Class A and Class B Common Stock are only entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have not paid any cash dividends on our Class A and Class B Common Stock since inception, and we currently have no plans to pay dividends on our Class A and Class B Common Stock for the foreseeable future. As a Maryland corporation, we are only permitted to pay dividends out of net earnings.

Because we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our shareholders depends, in large part, upon our receipt of dividends from the Bank, which is also subject to numerous limitations on the payment of dividends under California banking laws, regulations and policies. See “Item 1. Business—Supervision and Regulation—Dividends.”

Our ability to pay dividends to our shareholders in the future will depend on regulatory restrictions, our liquidity and capital requirements, our earnings and financial condition, the general economic climate, contractual restrictions, our ability to service any equity or debt obligations senior to our Class A and Class B Common Stock and other factors deemed relevant by our board of directors.

Unregistered Sales and Issuer Repurchases of Common Stock

There were no unregistered sales of the Company’s stock during the fourth quarter of 2021. The Company did not repurchase any of its shares during the fourth quarter of 2021 and does not have any authorized share repurchase programs.

For information regarding securities authorized for issuance under the Company’s equity compensation plans, see “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Item 6. [Reserved]

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, this discussion contains forward-looking statements that involve risks uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under “Cautionary Note Regarding Forward-Looking Statements,” “Risk Factors” and elsewhere in this Form 10-K, may cause actual results to differ materially from those projected in the forward-looking statements. We assume no obligation to update any of these forward-looking statements.

Principal Factors Affecting Our Results of Operations

Net Income. Net income is calculated by taking interest and noninterest income and subtracting our costs to do business, such as interest, salaries, taxes and other operational expenses. We evaluate our net income based on measures that include net interest margin, return on average assets and return on average equity.

Net Interest Income. Net interest income represents interest income, less interest expense. We generate interest income from interest, dividends and fees received on interest earning assets, including loans, interest earning deposits in other banks and investment securities we own. We incur interest expense from interest paid on interest bearing liabilities, including interest bearing deposits, borrowings and other forms of indebtedness. Net interest income typically is the most significant contributor to our net income. To evaluate net interest income, we measure and monitor: (i) yields on our loans, securities, interest earning deposits in other banks and other interest earning assets; (ii) the costs of our deposits and other funding sources; (iii) our net interest spread; and (iv) our net interest margin. Net interest spread is the difference between rates earned on interest earning assets and rates paid on interest bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest earning assets for the same period. Because noninterest bearing sources of funds, such as noninterest bearing deposits and shareholders’ equity, also fund interest earning assets, net interest margin includes the benefit of these noninterest bearing sources.

Changes in market interest rates and interest we earn on interest earning assets or pay on interest bearing liabilities, as well as the volume and types of our interest earning assets, interest bearing and noninterest bearing liabilities and shareholders’ equity, usually have the largest impact on periodic changes in our net interest spread, net interest margin and net interest income. We measure net interest income before and after our provision for loan losses.

Provision for Loan Losses. Provision for loan losses is the amount of expense that, based on our management’s judgment, is required to maintain our allowance for loan losses at an adequate level to absorb probable losses inherent in our loan portfolio at the applicable balance sheet date and that, in our management’s judgment, is appropriate under relevant accounting guidance. Determination of the allowance for loan losses is complex and involves a high degree of judgment and subjectivity. For a description of the factors considered by our management in determining the allowance for loan losses see “—Financial Condition—Allowance for Loan Losses.”

Noninterest Income. Noninterest income consists of, among other things: (i) deposit related fees; (ii) mortgage warehouse fee income; (iii) gain on sale of securities; (iv) other gain and losses; and (v) other noninterest income. Deposit related fees include cash management fees, such as analyzed checking fees, account maintenance fees, insufficient funds fees, overdraft fees, stop payment fees, foreign exchange fee income, domestic and foreign wire transfer fees, SEN related fees and card processing fee income. Mortgage warehouse fee income consists of transaction fees collected as the funded loans are sold or settled.

Noninterest Expense. Noninterest expense includes, among other things: (i) salaries and employee benefits; (ii) occupancy and equipment expense; (iii) communications and data processing fees; (iv) professional services fees; (v) federal deposit insurance; (vi) correspondent bank charges; (vii) other loan expense and (viii) other general and administrative expenses.

Salaries and employee benefits include compensation, stock-based compensation, employee benefits and tax expenses for our personnel. Occupancy and equipment expense includes depreciation expense, lease expense on our leased properties and other occupancy-related expenses. Equipment expense includes expenses related to our furniture, fixtures, equipment and software. Communications expense includes costs for telephone and internet. Data processing fees include expenses paid to our third-party data processing system provider and other data service providers. Professional fees include legal, accounting, consulting and other outsourcing arrangements. Federal deposit insurance expense relates to FDIC assessments based on the level of our deposits. Correspondent bank charges include wire transfer fees, transaction fees and service charges related to transactions settled with correspondent relationships. Other loan expense includes custodial fees for our digital currency collateralized loans and loan servicing related expenses. Other general and administrative expenses include expenses associated with travel, meals, advertising, promotions, sponsorships, training, supplies, postage, insurance, board of director expenses and other expenses related to being a public company. Noninterest expenses generally increase as we grow our business.

Financial Condition

The primary factors we use to evaluate and manage our financial condition include asset quality, capital and liquidity.

Asset Quality. We manage the diversification and quality of our assets based on factors that include the level, distribution, severity and trend of problem, classified, delinquent, nonaccrual, nonperforming and restructured assets, the adequacy of our allowance for loan losses, the diversification and quality of our loan and investment portfolios, the extent of counterparty risks, credit risk concentrations and other factors.

Capital. Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The Company and the Bank's capital ratios at December 31, 2021 exceeded all current well capitalized regulatory requirements.

We manage capital primarily based upon: (i) the level and quality of capital, our growth rate and our overall financial condition; (ii) the level and quality of earnings; (iii) the risk exposures in our balance sheet; and (iv) general economic conditions.

Liquidity. We manage liquidity based on factors that include the amount of core deposits as a percentage of total deposits, the level of diversification of our funding sources, the allocation and amount of our deposits among deposit types, the short-term funding sources used to fund assets, the amount of non-deposit funding used to fund assets, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash, interest earning deposits in other banks and liquid securities we hold, the re-pricing characteristics and maturities of our assets when compared to the re-pricing characteristics of our liabilities and other factors.

We maintain high levels of liquidity for our customers who operate in the digital currency industry, as these deposits are subject to potentially dramatic fluctuations due to certain factors that may be outside of our control. As a result, the Bank deploys its customer deposits into interest earning deposits in other banks and securities, as well as into specialized lending opportunities.

Selected Historical Financial Data

Information as of and for the years ended December 31, 2021 and 2020 is derived from audited financial statements presented separately herein, while information as of and for the years ended December 31, 2019, 2018 and 2017 is derived from audited financial statements not included herein. Our historical results are not necessarily indicative of any future period. The performance ratios and asset quality and capital ratios are unaudited and derived from our audited financial statements and other financial information as of and for the periods presented. Average balances have been calculated using daily averages.

	Year Ended December 31,				
	2021	2020	2019	2018	2017
(In thousands, except per share data)					
Statement of Operations Data:					
Interest income	\$ 130,394	\$ 79,590	\$ 81,035	\$ 72,752	\$ 48,306
Interest expense	1,127	7,226	10,078	3,129	6,355
Net interest income	129,267	72,364	70,957	69,623	41,951
Provision for (reversal of) loan losses	—	742	(439)	(1,527)	262
Net interest income after provision	129,267	71,622	71,396	71,150	41,689
Noninterest income	45,256	19,177	15,754	7,563	3,448
Noninterest expense	89,120	59,605	52,478	48,314	30,706
Income before income taxes	85,403	31,194	34,672	30,399	14,431
Income tax expense ⁽¹⁾	6,875	5,156	9,826	8,066	6,788
Net income	78,528	26,038	24,846	22,333	7,643
Dividends on preferred stock	3,016	—	—	—	—
Net income available to common shareholders	\$ 75,512	\$ 26,038	\$ 24,846	\$ 22,333	\$ 7,643
Financial Ratios:					
Return on average assets (ROAA)	0.66 %	1.03 %	1.19 %	1.11 %	0.66 %
Return on average equity (ROAE)	8.49 %	9.78 %	11.54 %	13.47 %	10.80 %
Return on average common equity (ROACE)	9.32 %	9.78 %	11.54 %	13.47 %	10.80 %
Net interest margin ⁽²⁾	1.20 %	3.00 %	3.47 %	3.49 %	3.68 %
Noninterest income to average assets	0.40 %	0.76 %	0.76 %	0.38 %	0.30 %
Noninterest expense to average assets	0.78 %	2.37 %	2.52 %	2.41 %	2.67 %
Efficiency ratio ⁽³⁾	51.06 %	65.11 %	60.52 %	62.59 %	67.64 %
Loan yield ⁽⁴⁾	4.40 %	4.64 %	5.45 %	5.52 %	5.20 %
Cost of deposits	0.00 %	0.27 %	0.43 %	0.10 %	0.44 %
Cost of funds	0.01 %	0.32 %	0.54 %	0.17 %	0.59 %
Share Data:					
Basic earnings per common share	\$ 2.95	\$ 1.39	\$ 1.38	\$ 1.35	\$ 0.83
Diluted earnings per common share	\$ 2.91	\$ 1.36	\$ 1.35	\$ 1.31	\$ 0.79
Common stock shares issued and outstanding at end of period	30,403	18,834	18,668	17,818	9,224
Basic weighted average shares outstanding	25,582	18,691	17,957	16,543	9,224
Diluted weighted average shares outstanding	25,922	19,177	18,385	17,023	9,618
Book value per common share at end of period	\$ 46.55	\$ 15.63	\$ 12.38	\$ 10.73	\$ 8.00

(1) The year ended December 31, 2017 included a \$1.2 million increase in income tax expense related to the revaluation of our deferred tax assets resulting from the reduction in the corporate income tax rate as a result of the Tax Cuts and Jobs Act of 2017.

(2) Net interest margin is a ratio calculated as net interest income, on a fully taxable equivalent basis for interest income on tax-exempt securities using the federal statutory tax rate of 21.0%, divided by average interest earning assets for the same period.

(3) Efficiency ratio is calculated by dividing noninterest expenses by net interest income plus noninterest income.

(4) Includes nonaccrual loans and loans 90 days and more past due.

	December 31,				
	2021	2020	2019	2018	2017
	(Dollars in thousands)				
Statement of Financial Condition Data:					
Cash and cash equivalents	\$ 5,387,946	\$ 2,962,087	\$ 133,604	\$ 674,420	\$ 797,668
Securities available-for-sale, at fair value	8,625,259	939,015	897,766	357,178	191,802
Loans held-for-sale	893,194	865,961	375,922	350,636	190,392
Loans held-for-investment, net	887,304	746,751	664,622	592,781	689,303
Other	211,792	72,421	56,213	29,303	22,783
Total assets	\$ 16,005,495	\$ 5,586,235	\$ 2,128,127	\$ 2,004,318	\$ 1,891,948
Deposits	\$ 14,290,628	\$ 5,248,026	\$ 1,814,654	\$ 1,783,005	\$ 1,775,146
Borrowings	15,845	15,831	68,530	20,659	36,788
Other liabilities	90,186	28,079	13,907	9,408	6,214
Total liabilities	14,396,659	5,291,936	1,897,091	1,813,072	1,818,148
Total shareholders' equity	1,608,836	294,299	231,036	191,246	73,800
Total liabilities and shareholders' equity	\$ 16,005,495	\$ 5,586,235	\$ 2,128,127	\$ 2,004,318	\$ 1,891,948
Nonperforming Assets:					
Nonaccrual loans	\$ 4,003	\$ 4,984	\$ 5,825	\$ 8,221	\$ 4,410
Troubled debt restructurings	1,713	1,525	1,791	514	592
Other real estate owned, net	—	—	128	31	2,308
Nonperforming assets	4,003	4,984	5,953	8,252	6,718
Asset Quality Ratios:					
Nonperforming assets to total assets	0.03 %	0.09 %	0.28 %	0.41 %	0.36 %
Nonaccrual loans to total loans ⁽¹⁾	0.45 %	0.66 %	0.87 %	1.37 %	0.63 %
Net charge-offs (recoveries) to average total loans ⁽¹⁾	0.00 %	0.00 %	0.01 %	(0.01)%	0.02 %
Allowance for loan losses to total loans ⁽¹⁾	0.77 %	0.92 %	0.92 %	1.12 %	1.17 %
Allowance for loan losses to nonaccrual loans	172.77 %	138.76 %	106.28 %	81.78 %	185.15 %
Company Capital Ratios:					
Tier 1 leverage ratio	11.07 %	8.29 %	11.23 %	9.00 %	6.15 %
Common equity tier 1 capital ratio	49.53 %	21.53 %	24.52 %	23.10 %	10.54 %
Tier 1 risk-based capital ratio	56.82 %	22.88 %	26.21 %	24.96 %	12.72 %
Total risk-based capital ratio	57.08 %	23.49 %	26.90 %	25.77 %	13.88 %
Common equity to total assets	8.84 %	5.27 %	10.86 %	9.54 %	3.90 %
Bank Capital Ratios:					
Tier 1 leverage ratio	10.49 %	8.22 %	10.52 %	8.51 %	6.33 %
Common equity tier 1 capital ratio	53.89 %	22.71 %	24.55 %	23.68 %	13.11 %
Tier 1 risk-based capital ratio	53.89 %	22.71 %	24.55 %	23.68 %	13.11 %
Total risk-based capital ratio	54.15 %	23.32 %	25.24 %	24.50 %	14.29 %

(1) Loans exclude loans held-for-sale at each of the dates presented.

Results of Operations

Net Income

The following table sets forth the principal components of net income for the periods indicated.

	Year Ended December 31,			
	2021	2020	\$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in thousands)			
Interest income	\$ 130,394	\$ 79,590	\$ 50,804	63.8 %
Interest expense	1,127	7,226	(6,099)	(84.4) %
Net interest income	129,267	72,364	56,903	78.6 %
Provision for loan losses	—	742	(742)	N/M
Net interest income after provision	129,267	71,622	57,645	80.5 %
Noninterest income	45,256	19,177	26,079	136.0 %
Noninterest expense	89,120	59,605	29,515	49.5 %
Net income before income taxes	85,403	31,194	54,209	173.8 %
Income tax expense	6,875	5,156	1,719	33.3 %
Net income	\$ 78,528	\$ 26,038	\$ 52,490	201.6 %

N/M—Not meaningful

Net income for the year ended December 31, 2021 was \$78.5 million, an increase of \$52.5 million, or 201.6%, from net income of \$26.0 million for the year ended December 31, 2020. The increase was primarily due to an increase of \$56.9 million, or 78.6%, in net interest income, and an increase of \$26.1 million, or 136.0%, in noninterest income, partially offset by an increase of \$1.7 million, or 33.3%, in income tax expense and a \$29.5 million, or 49.5%, increase in noninterest expense, all as described below.

Net Interest Income and Net Interest Margin Analysis (Taxable Equivalent Basis)

We analyze our ability to maximize income generated from interest earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between the interest and fees earned on interest earning assets, such as loans, interest earning deposits in other banks and securities, and the interest expense incurred on interest bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in market interest rates and the interest rates we earn on interest earning assets or pay on interest bearing liabilities, as well as in the volume and types of interest earning assets, interest bearing and noninterest bearing liabilities and shareholders' equity, are usually the largest drivers of periodic changes in net interest income, net interest margin and net interest spread. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of our net interest income and net interest margin as our primary sources of earnings.

The following tables show the average outstanding balance of each principal category of our assets, liabilities and shareholders' equity, together with the average yields on our assets and the average costs of our liabilities for the periods indicated. Such yields and costs are calculated by dividing income or expense by the average daily balances of the associated assets or liabilities for the same period.

Tax-exempt income from securities is calculated on a taxable equivalent basis. Net interest income, net interest spread and net interest margin are presented on a taxable equivalent basis to consistently reflect income from taxable securities and tax-exempt securities based on the federal statutory tax rate of 21.0%.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Year Ended December 31,					
	2021			2020		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate
(Dollars in thousands)						
Assets						
Interest earning assets:						
Interest earning deposits in other banks	\$ 4,860,447	\$ 6,799	0.14 %	\$ 335,201	\$ 1,639	0.49 %
Taxable securities	3,761,396	36,094	0.96 %	735,534	17,465	2.37 %
Tax-exempt securities ⁽¹⁾	975,880	21,900	2.24 %	193,282	6,408	3.32 %
Loans ⁽²⁾⁽³⁾	1,559,118	68,619	4.40 %	1,180,390	54,732	4.64 %
Other	27,623	1,581	5.72 %	13,612	692	5.08 %
Total interest earning assets	11,184,464	134,993	1.21 %	2,458,019	80,936	3.29 %
Noninterest earning assets	172,374			59,018		
Total assets	<u>\$ 11,356,838</u>			<u>\$ 2,517,037</u>		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	\$ 92,137	\$ 134	0.15 %	\$ 213,345	\$ 5,807	2.72 %
FHLB advances and other borrowings	14	—	0.00 %	68,546	336	0.49 %
Subordinated debentures and other	15,838	993	6.27 %	16,629	1,083	6.51 %
Total interest bearing liabilities	107,989	1,127	1.04 %	298,520	7,226	2.42 %
Noninterest bearing liabilities:						
Noninterest bearing deposits	10,319,141			1,931,310		
Other liabilities	40,123			21,012		
Shareholders' equity	889,585			266,195		
Total liabilities and shareholders' equity	<u>\$ 11,356,838</u>			<u>\$ 2,517,037</u>		
Net interest spread ⁽⁴⁾			0.17 %			0.87 %
Net interest income, taxable equivalent basis		<u>\$ 133,866</u>			<u>\$ 73,710</u>	
Net interest margin ⁽⁵⁾			1.20 %			3.00 %
Reconciliation to reported net interest income:						
Adjustments for taxable equivalent basis		(4,599)			(1,346)	
Net interest income, as reported		<u>\$ 129,267</u>			<u>\$ 72,364</u>	

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

(2) Loans include nonaccrual loans and loans held-for-sale, net of deferred fees and before allowance for loan losses.

(3) Interest income includes amortization of deferred loan fees, net of deferred loan costs.

(4) Net interest spread is the difference between interest rates earned on interest earning assets and interest rates paid on interest bearing liabilities.

(5) Net interest margin is a ratio calculated as net interest income, on a taxable equivalent basis, divided by average interest earning assets for the same period.

Information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes

attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	For the Year Ended December 31, 2021 Compared to 2020		
	Change Due To		Interest Variance
	Volume	Rate	
	(Dollars in thousands)		
Interest Income:			
Interest earning deposits in other banks	\$ 22,127	\$ (16,967)	\$ 5,160
Taxable securities	71,848	(53,219)	18,629
Tax-exempt securities ⁽¹⁾	25,946	(10,454)	15,492
Loans	20,758	(6,871)	13,887
Other	712	177	889
Total interest income	141,391	(87,334)	54,057
Interest Expense:			
Interest bearing deposits	(5,447)	(226)	(5,673)
FHLB advances and other borrowings	(336)	—	(336)
Subordinated debentures and other	(34)	(56)	(90)
Total interest expense	(5,817)	(282)	(6,099)
Net interest income, taxable equivalent basis	\$ 147,208	\$ (87,052)	\$ 60,156

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

Net interest income on a taxable equivalent basis increased \$60.2 million to \$133.9 million for the year ended December 31, 2021 compared to \$73.7 million for the year ended December 31, 2020, due to an increase of \$54.1 million in interest income and a decrease of \$6.1 million in interest expense. Average total interest earning assets increased \$8.7 billion, or 355.0%, from \$2.5 billion for the year ended December 31, 2020 to \$11.2 billion for the year ended December 31, 2021. This increase was primarily due to an increase in the average balance of interest earning deposits in other banks and securities. The average yield on total interest earning assets decreased from 3.29% for the year ended December 31, 2020 to 1.21% for the year ended December 31, 2021 primarily due to interest earning deposits in other banks being a greater percentage of interest earning assets, and lower yields on securities and interest earning deposits.

Average interest bearing liabilities decreased \$190.5 million, or 63.8%, for the year ended December 31, 2021 as compared to 2020 primarily due to calling the remaining balance of brokered certificates of deposit in the second quarter of 2020 and lower FHLB advances. The average rate on total interest bearing liabilities decreased to 1.04% for the year ended December 31, 2021 compared to 2.42% for 2020 primarily due to the impact of calling the remaining balance of brokered certificates of deposit in the first half of 2020. The total interest expense, including accelerated premium amortization, related to the brokered certificates was \$5.4 million for the year ended December 31, 2020.

For the year ended December 31, 2021, the net interest spread was 0.17% and the net interest margin was 1.20% compared to 0.87% and 3.00%, respectively, for 2020. The decrease in the net interest spread for the year ended December 31, 2021 was primarily due to lower yields on securities and interest earning deposits due to a declining interest rate environment. The decrease in the net interest margin was primarily due to a greater proportion of lower yielding interest earning deposits as a percentage of total interest earning assets, which was driven by the increase in noninterest bearing digital currency customer deposits. The decrease in the net interest margin was also due to lower yields on securities and interest earning deposits.

Provision for Loan Losses

The provision for loan losses is a charge to income to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors considered by our management in determining the allowance for loan losses see “—Financial Condition—Allowance for Loan Losses” and “—Critical Accounting Policies—Allowance for Loan Losses.”

We recorded no provision for loan losses for the year ended December 31, 2021 compared to a provision of \$0.7 million for the year ended December 31, 2020. The allowance for loan losses to total loans held-for-investment was 0.77% at December 31, 2021 compared to 0.92% at December 31, 2020. Management determined that no provision was necessary for the year ended December 31, 2021, based on the mix of our loan portfolio, our historically strong credit quality and minimal loan

charge-offs, and the loan-to-value ratios in the low- to mid-50% range in our commercial, multi-family and one-to-four family residential real estate held-for-investment loan portfolios.

Noninterest Income

The following table presents, for the periods indicated, the major categories of noninterest income:

	Year Ended December 31,			
	2021	2020	\$ Increase/ (Decrease)	% Increase/ (Decrease)
(Dollars in thousands)				
Noninterest income:				
Mortgage warehouse fee income	\$ 3,056	\$ 2,539	\$ 517	20.4 %
Deposit related fees	35,981	11,341	24,640	217.3 %
Gain on sale of securities, net	5,238	3,753	1,485	39.6 %
Gain on sale of loans, net	—	354	(354)	N/M
Gain on extinguishment of debt	—	925	(925)	N/M
Other income	981	265	716	270.2 %
Total noninterest income	<u>\$ 45,256</u>	<u>\$ 19,177</u>	<u>\$ 26,079</u>	<u>136.0 %</u>

N/M—Not meaningful

Noninterest income for the year ended December 31, 2021 was \$45.3 million, an increase of \$26.1 million, or 136.0%, compared to noninterest income of \$19.2 million for the year ended December 31, 2020. This increase was primarily due to a \$24.6 million increase in deposit related fees, substantially all of which are fees from our digital currency customers, and a \$1.5 million increase in gain on sale of securities. The \$24.6 million increase in deposit related fees was primarily due to increases in cash management, foreign exchange, and SEN related fees associated with our digital currency initiative. During the year ended December 31, 2021, we sold a total of \$1.5 billion of securities and realized a net gain on sale of \$5.2 million, compared to a total of \$216.4 million in sales of securities and net gain on sale of \$3.8 million during the year ended December 31, 2020. During the year ended December 31, 2020, the Company initiated and settled a \$64.0 million FHLB five-year term advance. Due to an increase in FHLB advance rates after settlement, the Company repaid the advance and recorded a gain of \$0.9 million. Other income for the year ended December 31, 2021 included a \$0.9 million gain on sale of assets related to the sale of interest rate swaps.

Noninterest Expense

The following table presents, for the periods indicated, the major categories of noninterest expense:

	Year Ended December 31,			
	2021	2020	\$ Increase/ (Decrease)	% Increase/ (Decrease)
(Dollars in thousands)				
Noninterest expense:				
Salaries and employee benefits	\$ 45,794	\$ 36,493	\$ 9,301	25.5 %
Occupancy and equipment	2,464	5,690	(3,226)	(56.7) %
Communications and data processing	7,072	5,406	1,666	30.8 %
Professional services	9,776	4,460	5,316	119.2 %
Federal deposit insurance	13,537	1,172	12,365	N/M
Correspondent bank charges	2,515	1,533	982	64.1 %
Other loan expense	1,117	326	791	242.6 %
Other general and administrative	6,845	4,525	2,320	51.3 %
Total noninterest expense	<u>\$ 89,120</u>	<u>\$ 59,605</u>	<u>\$ 29,515</u>	<u>49.5 %</u>

N/M—Not meaningful

Noninterest expense increased \$29.5 million, or 49.5%, for the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to increases in federal deposit insurance, salaries and employee benefits, professional services and other general and administrative.

The increase of \$9.3 million, or 25.5%, in salaries and employee benefits was primarily due to an increase in headcount and an increase in cost per full-time equivalent employee, including a \$1.0 million increase in employee related stock-based compensation expense. The Company's average full-time equivalent employees increased from 210 for the year ended December 31, 2020 to 235 for 2021. Occupancy and equipment decreased \$3.2 million, or 56.7%, due to a reduction in costs related to our leased office space and fixed assets no longer in use that were written off during the year ended December 31, 2020. Communications and data processing increased \$1.7 million, or 30.8%, primarily due to additional core processing expense due to higher transaction volumes, continued investment in scalable cloud-based software solutions and investments in compliance software to support our digital currency related customers. Professional services increased \$5.3 million, or 119.2%, primarily due to consulting and legal fees for projects related to our strategic growth initiatives, including expenses related to our stablecoin project. In addition, professional services increased due to legal settlements and higher audit expense. Federal deposit insurance increased \$12.4 million due to a rate increase driven by the significant growth in assets. Correspondent bank charges increased \$1.0 million, or 64.1%, due to increased wire volumes and expanded correspondent relationships. Other loan expense increased \$0.8 million, or 242.6%, due to increased custodial fees related to the growth of our SEN Leverage loans. Other general and administrative expense increased \$2.3 million, or 51.3%, primarily due to an increase for expanded insurance coverage and an increase in the provision for unfunded commitments related to the increase in SEN Leverage loans total lines of credit.

Income Tax Expense

Income tax expense was \$6.9 million for the year ended December 31, 2021 compared to \$5.2 million for the year ended December 31, 2020. The increase in income tax expense was primarily related to an increase in pre-tax income. Our effective tax rates for the years ended December 31, 2021 and 2020 were 8.1% and 16.5%, respectively. The decrease in the Company's effective tax rate in 2021 was primarily related to higher excess tax benefit from stock-based compensation and tax-exempt income earned on certain municipal bonds.

Financial Condition

As of December 31, 2021, our total assets increased to \$16.0 billion compared to \$5.6 billion as of December 31, 2020. Shareholders' equity increased \$1.3 billion, or 446.7%, to \$1.6 billion at December 31, 2021 compared to \$294.3 million at December 31, 2020. A summary of the individual components driving the changes in total assets, total liabilities and shareholders' equity is set forth below.

Interest Earning Deposits in Other Banks

Interest earning deposits in other banks increased from \$2.9 billion at December 31, 2020 to \$5.2 billion at December 31, 2021. The majority of the Company's interest earning deposits in other banks is cash held at the Federal Reserve Bank. The increase in interest earning deposits was due to growth in total deposits exceeding growth in total loans and securities.

Securities Available-for-sale

We use our securities portfolio to primarily provide a source of liquidity, provide a return on funds invested and manage interest rate risk.

Management classifies investment securities primarily as either held-to-maturity or available-for-sale based on our intentions and the Company's ability to hold such securities until maturity. In determining such classifications, securities that management has the positive intent and the Company has the ability to hold until maturity are classified as held to maturity and carried at amortized cost. All other securities are designated as available-for-sale and carried at estimated fair value with unrealized gains and losses included in shareholders' equity on an after-tax basis. For the years presented, substantially all securities were classified as available-for-sale.

Our securities available-for-sale increased \$7.7 billion, or 818.5%, from \$939.0 million at December 31, 2020 to \$8.6 billion at December 31, 2021. To supplement interest income earned on our loan portfolio, we invest in high quality mortgage-backed securities, collateralized mortgage obligations, other asset backed securities and municipal bonds. During the year ended December 31, 2021, the Company purchased \$9.6 billion of securities, including \$4.1 billion of agency residential mortgage-backed securities, \$2.5 billion of municipal bonds, \$2.4 billion of U.S. agency securities, \$333.2 million of U.S. Treasury securities, \$220.0 million of agency commercial mortgage-backed securities, and \$133.1 million of private-label commercial mortgage-backed securities. In addition, we sold U.S. Treasury and longer duration securities for \$1.5 billion and recognized a gain of \$5.2 million.

The following tables summarize the contractual maturities and weighted-average yields of investment securities at December 31, 2021 and the amortized cost and carrying value of those securities as of the indicated dates. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Residential and commercial mortgage-backed securities are classified below based on the final maturity date, however these are amortizing securities with expected average lives primarily less than ten years. The weighted average yield is a prospective yield computed using the amortized cost of fixed income investment securities. Actual yields earned may differ significantly based upon actual prepayments.

SECURITIES

	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through 10 Years		More Than 10 Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)											
December 31, 2021											
Securities Available-for-Sale:											
U.S. agency securities - excluding mortgage-backed securities	—	—	\$ 2,243	0.59 %	\$ 955,367	0.38 %	\$ 219,842	0.35 %	\$ 1,177,452	\$ 1,178,767	0.38 %
Residential mortgage-backed securities:											
Government agency mortgage-backed securities	—	—	—	—	—	—	1,428,365	0.85 %	1,428,365	1,414,117	0.85 %
Government agency collateralized mortgage obligation	—	—	—	—	61	1.69 %	1,659,064	0.35 %	1,659,125	1,645,003	0.35 %
Private-label collateralized mortgage obligation	—	—	—	—	—	—	1,425	2.35 %	1,425	1,433	2.35 %
Commercial mortgage-backed securities:											
Government agency mortgage-backed securities	—	—	—	—	—	—	1,106,680	0.57 %	1,106,680	1,103,604	0.57 %
Government agency collateralized mortgage obligation	—	—	—	—	212,266	0.58 %	—	—	212,266	210,915	0.58 %
Private-label collateralized mortgage obligation	—	—	—	—	—	—	144,204	1.23 %	144,204	143,634	1.23 %
Municipal bonds:											
Tax-exempt	—	—	—	—	13,625	3.15 %	2,259,169	1.84 %	2,272,794	2,297,737	1.85 %
Taxable	—	—	—	—	225,076	1.67 %	178,203	2.20 %	403,279	397,604	1.90 %
Asset backed securities:											
Government sponsored student loan pools	—	—	—	—	—	—	233,374	0.69 %	233,374	232,445	0.69 %
Total securities	—	—	\$ 2,243	0.59 %	\$ 1,406,395	0.64 %	\$ 7,230,326	1.02 %	\$ 8,638,964	\$ 8,625,259	0.96 %

Loan Portfolio

Our loan portfolio consists primarily of mortgage warehouse loans, loans secured by real estate and loans secured by bitcoin which are included in the commercial and industrial loan segment. The following table summarizes our loan portfolio by loan segment as of the dates indicated:

COMPOSITION OF LOAN PORTFOLIO

	As of December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
One-to-four family	\$ 105,098	11.8 %	\$ 187,855	25.0 %
Multi-family	56,751	6.3 %	77,126	10.3 %
Commercial	210,136	23.5 %	301,901	40.2 %
Construction	7,573	0.8 %	6,272	0.8 %
Commercial and industrial ⁽¹⁾	335,862	37.6 %	78,909	10.5 %
Reverse mortgage and other	1,410	0.2 %	1,495	0.2 %
Mortgage warehouse	177,115	19.8 %	97,903	13.0 %
Total gross loans held-for-investment	893,945	100.0 %	751,461	100.0 %
Deferred fees, net	275		2,206	
Total loans held-for-investment	894,220		753,667	
Allowance for loan losses	(6,916)		(6,916)	
Total net loans held-for-investment	\$ 887,304		\$ 746,751	
Loans held-for-sale ⁽²⁾	\$ 893,194		\$ 865,961	

(1) Commercial and industrial loans includes \$335.9 million and \$77.2 million of SEN Leverage loans as of December 31, 2021 and 2020, respectively.

(2) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented.

The repayment of loans is a source of additional liquidity for the Bank. The following table details maturities and sensitivity to interest rate changes for our loans held-for-investment at December 31, 2021:

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

	December 31, 2021				
	Due in One Year or Less	Due in One to Five Years	Due After Five Years to 15 Years	Due After 15 Years	Total
	(Dollars in thousands)				
Real estate:					
One-to-four family	\$ 26	\$ 672	\$ 6,857	\$ 98,283	\$ 105,838
Multi-family	—	35,603	20,178	1,074	56,855
Commercial	22,002	132,087	56,037	—	210,126
Construction	7,502	—	—	—	7,502
Commercial and industrial	335,405	(47)	4	—	335,362
Reverse mortgage and other	4	—	—	1,418	1,422
Mortgage warehouse	177,115	—	—	—	177,115
Total loans held-for-investment	\$ 542,054	\$ 168,315	\$ 83,076	\$ 100,775	\$ 894,220
Amounts with fixed rates	\$ 323,625	\$ 153,267	\$ 12,737	\$ 3,239	\$ 492,868
Amounts with floating rates	\$ 218,429	\$ 15,048	\$ 70,339	\$ 97,536	\$ 401,352

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether such loans are actually past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When interest accrual is discontinued, all unpaid accrued interest is reversed from income. Interest income is subsequently recognized only to the extent cash payments received exceed principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are, in management's opinion, reasonably assured. Any loan which the Bank deems to be uncollectible, in whole or in part, is charged off to the extent of the anticipated loss. Loans that are past due for 180 days or more are charged off unless the loan is well secured and in the process of collection.

We believe our disciplined lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our loan officers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Nonaccrual loans decreased to \$4.0 million, or 0.45% of total loans, at December 31, 2021 compared to \$5.0 million, or 0.66% of total loans, at December 31, 2020. The decrease in nonaccrual loans during the year ended December 31, 2021 was primarily due to loan principal repayments on one-to-four family real estate loans.

Total nonperforming assets were \$4.0 million and \$5.0 million at December 31, 2021 and 2020, respectively, or 0.03% and 0.09%, respectively, of total assets.

The following table presents information regarding nonperforming assets at the dates indicated:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Nonaccrual loans		
Real estate:		
One-to-four family	\$ 3,080	\$ 4,105
Reverse mortgage and other	923	879
Total nonaccrual loans	4,003	4,984
Accruing loans 90 or more days past due	—	—
Total nonperforming loans	4,003	4,984
Other real estate owned, net	—	—
Total nonperforming assets	\$ 4,003	\$ 4,984
Ratio of nonaccrual loans to total loans ⁽¹⁾	0.45 %	0.66 %
Ratio of allowance for loan losses to nonaccrual loans	172.77 %	138.76 %
Ratio of nonperforming assets to total assets	0.03 %	0.09 %
Troubled debt restructurings:		
Restructured loans-nonaccrual	\$ 564	\$ 564
Restructured loans-accruing	1,149	961
Total troubled debt restructurings	\$ 1,713	\$ 1,525

(1) Total loans exclude loans held-for-sale at each of the dates presented.

Impaired Loans and TDRs.

Impaired loans also include certain loans that have been modified as troubled debt restructurings, or TDRs. As of December 31, 2021, the Company held eight loans totaling \$1.7 million that were TDRs, compared to seven loans totaling \$1.5 million at December 31, 2020.

A loan is identified as a TDR when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All TDRs are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

Loans Grading

From a credit risk standpoint, we grade watchlist and problem loans into one of five categories: pass, special mention, substandard, doubtful or loss. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits regularly. Ratings are adjusted regularly to reflect the degree of risk and loss that our management believes to be appropriate for each credit. Our methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

The following table presents the loan balances by segment as well as risk rating. No assets were classified as loss during the periods presented.

LOAN CLASSIFICATION					
	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
December 31, 2021					
Real estate loans:					
One-to-four family	\$ 102,307	\$ 451	\$ 3,080	\$ —	\$ 105,838
Multi-family	56,855	—	—	—	56,855
Commercial	199,598	10,528	—	—	210,126
Construction	7,502	—	—	—	7,502
Commercial and industrial	335,362	—	—	—	335,362
Reverse mortgage and other	499	—	923	—	1,422
Mortgage warehouse	177,115	—	—	—	177,115
Total loans held-for-investment	<u>\$ 879,238</u>	<u>\$ 10,979</u>	<u>\$ 4,003</u>	<u>\$ —</u>	<u>\$ 894,220</u>

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
December 31, 2020					
Real estate loans:					
One-to-four family	\$ 182,760	\$ 3,335	\$ 4,105	\$ —	\$ 190,200
Multi-family	77,288	—	—	—	77,288
Commercial	288,471	5,854	7,755	—	302,080
Construction	6,137	—	—	—	6,137
Commercial and industrial	78,275	—	274	—	78,549
Reverse mortgage and other	631	—	879	—	1,510
Mortgage warehouse	97,903	—	—	—	97,903
Total loans held-for-investment	\$ 731,465	\$ 9,189	\$ 13,013	\$ —	\$ 753,667

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management’s best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for loan losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. See “Critical Accounting Policies—Allowance for Loan Losses.”

The following table presents a summary of changes in the allowance for loan losses for the periods and dates indicated:

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	For the Years Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Allowance for loan losses at beginning of period	\$ 6,916	\$ 6,916
Charge-offs:		
Real estate:		
One-to-four family	—	17
Total charge-offs	—	17
Total recoveries	—	—
Net charge-offs	—	17
Provision for loan losses	—	742
Allowance for loan losses at period end	<u>\$ 6,916</u>	<u>\$ 6,916</u>
Total loans outstanding (end of period)	<u>\$ 894,220</u>	<u>\$ 753,667</u>
Average loans outstanding	<u>\$ 779,244</u>	<u>\$ 720,960</u>
Allowance for loan losses to period end loans	0.77 %	0.92 %
Net charge-offs to average loans	0.00 %	0.00 %
Net charge-offs to average loans by segment:		
Real estate:		
One-to-four family	0.00 %	0.01 %

Our allowance for loan losses at December 31, 2021 and 2020 was \$6.9 million, or 0.77% and 0.92% of loans for each respective period-end. The overall level of the allowance was based on Silvergate’s historically strong credit quality and

minimal loan charge-offs, and the loan-to-values ratios in the low- to mid-50% range, based on last required appraisal value, in the Company's commercial, multi-family and one-to-four family real estate loans as of December 31, 2021. The decrease in the ratio of the allowance for loan losses to loans held-for-investment from December 31, 2020 was due to the changes in loan product and segment mix.

We had no charge-offs and no recoveries for the year ended December 31, 2021 compared to charge-offs of \$17,000 and no recoveries for the year ended December 31, 2020.

Although we believe that we have established our allowance for loan losses in accordance with GAAP and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio.

The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,			
	2021		2020	
	Amount	Percent ⁽¹⁾	Amount	Percent ⁽¹⁾
	(Dollars in thousands)			
Real estate:				
One-to-four family	\$ 1,023	0.11 %	\$ 1,245	0.17 %
Multi-family	682	0.08 %	878	0.12 %
Commercial	2,017	0.23 %	1,810	0.24 %
Construction	776	0.09 %	590	0.08 %
Commercial and industrial	1,566	0.17 %	1,931	0.24 %
Reverse mortgage and other	12	0.00 %	39	0.01 %
Mortgage warehouse	840	0.09 %	423	0.06 %
Total allowance for loan losses	\$ 6,916	0.77 %	\$ 6,916	0.92 %

(1) Loan amount as a percentage of total loans.

Deposits

Deposits are the major source of funding for the Company, substantially all of which are derived from our digital currency customer base. Deposits increased \$9.0 billion, or 172.3%, to \$14.3 billion at December 31, 2021 compared to \$5.2 billion at December 31, 2020. Noninterest bearing deposits totaled \$14.2 billion (representing approximately 99.5% of total deposits) at December 31, 2021, compared to \$5.1 billion (representing approximately 97.8% of total deposits) at December 31, 2020. The increase in total deposits from the prior year end was driven by an increase in deposits from digital currency exchanges, institutional investors in digital assets and other fintech related customers.

At December 31, 2021, deposits by foreign depositors amounted to \$4.0 billion, or 28.0% of total deposits, compared to \$1.4 billion, or 27.6% of total deposits, at December 31, 2020.

Deposits that meet or exceed the FDIC insurance limit of \$250,000 and over totaled \$14.1 billion at December 31, 2021. The amounts stated for uninsured deposits as of the reported period are estimates due to the impracticability of precisely measuring amounts of uninsured deposits for accounts held through fiduciary relationships, some portion of which may qualify for "pass-through" insurance coverage under FDIC regulations. Accordingly, a portion of our reported uninsured deposits may be eligible for pass-through deposit insurance coverage. There were no uninsured certificates of deposit at December 31, 2021.

Our continued growth has been accompanied by significant fluctuations in the level of our deposits, in particular our deposits from customers in the digital currency industry, as our customers in this industry typically carry higher balances over the weekend to take advantage of the 24/7 availability of the SEN, and carry lower balances during the business week. The Bank's average total digital currency deposits during the year ended December 31, 2021 amounted to \$10.2 billion and the high and low daily total digital currency deposit levels during such time were \$16.0 billion and \$4.6 billion, respectively, compared to an average of \$1.9 billion during the year ended December 31, 2020, and a high and low daily deposit levels of \$5.0 billion and \$1.1 billion, respectively.

Demand for new deposit accounts is generated by the Company's banking platform for innovators that includes the SEN, which is enabled through Silvergate's proprietary API, and other cash management solutions. These tools enable Silvergate's clients to grow their business and scale operations. The following table presents a breakdown of our digital currency customer base and the deposits held by such customers at the dates noted below:

	December 31, 2021		December 31, 2020	
	Number of Customers	Total Deposits ⁽¹⁾	Number of Customers	Total Deposits ⁽¹⁾
	(Dollars in millions)			
Digital currency exchanges	94	\$ 8,288	76	\$ 2,479
Institutional investors	894	4,220	607	1,811
Other customers	393	1,603	286	749
Total	1,381	\$ 14,111	969	\$ 5,039

(1) Total deposits may not foot due to rounding.

Our cost of total deposits and our cost of funds was 0.00% and 0.01%, respectively, for the year ended December 31, 2021 as compared to 0.27% and 0.32%, respectively, for the year ended December 31, 2020. The decrease in the weighted average cost of deposits and cost of funds compared to the prior period was driven by the absence of any interest expense associated with brokered certificates of deposit, which were called in the second quarter of 2020, and due to higher balances of noninterest bearing deposits.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

COMPOSITION OF DEPOSITS

	Year Ended December 31,			
	2021		2020	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Noninterest bearing demand accounts ⁽¹⁾	\$ 10,319,141	—	\$ 1,931,310	—
Interest bearing accounts:				
Interest bearing demand accounts	21,310	0.12 %	44,991	0.14 %
Money market and savings accounts ⁽²⁾	70,215	0.15 %	71,432	0.46 %
Certificates of deposit:				
Brokered certificates of deposit	—	—	95,611	5.65 %
Other	612	0.65 %	1,311	0.92 %
Total interest bearing deposits	92,137	0.15 %	213,345	2.72 %
Total deposits	\$ 10,411,278	0.00 %	\$ 2,144,655	0.27 %

(1) Noninterest bearing demand accounts includes an average balance of \$3.1 billion of foreign deposits for the year ended December 31, 2021. Data is not available for 2020.

(2) Money market and savings accounts includes an average balance of \$0.5 million of foreign deposits with an average rate paid of 0.05% for the year ended December 31, 2021. Data is not available for 2020.

Borrowings

We primarily utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advances. The FHLB allows us to borrow up to 35% of the Bank's assets on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2021, approximately \$1.4 billion in real estate loans were pledged as collateral for our FHLB borrowings. We may use these borrowings to meet liquidity needs and to fund certain loans in our portfolio. As of December 31, 2021, we had no outstanding FHLB advances and had an additional \$973.9 million in available borrowing capacity from the FHLB.

Federal Reserve Bank of San Francisco. The FRB has an available borrower in custody arrangement that allows us to borrow on a collateralized basis. The Bank's borrowing capacity under the Federal Reserve's discount window program was

\$5.2 million as of December 31, 2021. Certain commercial loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. No advances were outstanding under this facility as of December 31, 2021.

The Company has also issued subordinated debentures and has access to borrow federal funds or lines of credit with correspondent banks. At December 31, 2021, these borrowings amounted to \$15.8 million.

Subordinated Debentures. A trust formed by the Company issued \$12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at six-month London Interbank Offered Rate (or “LIBOR”) plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At December 31, 2021, the interest rate for the Company’s next scheduled payment was 3.91%, based on six-month LIBOR of 0.16%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued \$3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At December 31, 2021, the interest rate for the Company’s next scheduled payment was 2.05%, based on three-month LIBOR of 0.20%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

Other Borrowings. At December 31, 2021, the Company had no outstanding balance of federal funds purchased and had available lines of credit of \$108.0 million with other correspondent banks.

Liquidity and Capital Resources

Liquidity

Liquidity is defined as the Bank’s capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Bank’s ability to meet both expected and unexpected cash flows and collateral needs efficiently without adversely affecting either daily operations or the financial condition of the Bank. Liquidity risk is the risk that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Bank’s obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and the cash flow profiles of our on- and off-balance sheet obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity) and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal and reputational risks also could affect the Bank’s liquidity risk profile and are considered in the assessment of liquidity and asset/liability management.

We maintain high levels of liquidity for our customers who operate in the digital currency industry, as these deposits are subject to potentially dramatic fluctuations due to certain factors that may be outside of our control. As a result, we have a significant amount of interest earning deposits in other banks and our investment portfolio is comprised primarily of mortgage-backed securities backed by government-sponsored entities, collateralized mortgage obligations, municipal bonds and asset-backed securities.

Management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Bank; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of cash and cash equivalents and

highly liquid marketable securities free of legal, regulatory or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

The movement of funds on our balance sheet among different SEN deposit customers does not reduce the Bank's deposits and thus does not result in liquidity issues or require any borrowing by the Company or the Bank. In addition, to the extent that SEN participants fully withdraw funds from the Bank, no material liquidity issues or borrowing needs would arise since the majority of SEN participants deposits are held in liquid assets, such as available-for-sale securities and cash, or used to fund short-term mortgage warehouse loans.

We expect funds to be available from basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include borrowings from the FHLB, the FRB, other lines of credit and brokered certificates of deposit. As of December 31, 2021, we had \$973.9 million of available borrowing capacity from the FHLB, \$5.2 million of available borrowing capacity from the FRB and available lines of credit of \$108.0 million with other correspondent banks. Cash and cash equivalents at December 31, 2021 were \$5.4 billion. Accordingly, our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary.

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated statements of financial condition. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized in our consolidated statements of financial condition. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded in other liabilities on the consolidated statements of financial condition. At December 31, 2021, we had \$248.6 million of credit extension commitments. For details of our commitments to extend credit, and commercial and standby letters of credit, please refer to "Note 10—Commitments and Contingencies—Off-Balance Sheet Items" of the "Notes to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report on Form 10-K.

Capital Resources

Shareholders' equity increased \$1.3 billion to \$1.6 billion at December 31, 2021 compared to \$294.3 million at December 31, 2020. The increase in shareholders' equity was primarily due to three common equity offerings, which resulted in the issuance of a total of 11,164,214 shares of Class A common stock for net proceeds of \$1.1 billion after deducting underwriting discounts, commissions and offering expenses, as applicable, and a \$200.0 million preferred equity offering that resulted in net proceeds of \$193.6 million. In addition, net income available to common shareholders after payment of \$3.0 million in preferred stock dividends, for the year ended December 31, 2021 amounted to \$75.5 million, which was partially offset by a decrease in accumulated other comprehensive income of \$53.0 million, due to the decrease in unrealized gains on available-for-sale securities portfolio and derivative assets.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1,250%. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

As of December 31, 2021, the Bank was in compliance with all applicable regulatory capital requirements to which it was subject, and was classified as "well capitalized" for purposes of the prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we intend to monitor and control our growth to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the regulatory capital ratios for the Company and the Bank as of the dates indicated:

	Actual		Minimum capital adequacy ^(b)		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2021						
The Company						
Tier 1 leverage ratio	\$ 1,631,257	11.07 %	\$ 589,614	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	1,422,136	49.53 %	129,198	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	1,631,257	56.82 %	172,264	6.00 %	N/A	N/A
Total risk-based capital ratio	1,638,794	57.08 %	229,686	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	1,546,693	10.49 %	589,595	4.00 %	\$ 736,994	5.00 %
Common equity tier 1 capital ratio	1,546,693	53.89 %	129,162	4.50 %	186,567	6.50 %
Tier 1 risk-based capital ratio	1,546,693	53.89 %	172,216	6.00 %	229,622	8.00 %
Total risk-based capital ratio	1,554,230	54.15 %	229,622	8.00 %	287,027	10.00 %
	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2020						
The Company						
Tier 1 leverage ratio	\$ 263,763	8.29 %	\$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	\$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies, as described in detail in the notes to our consolidated financial statements, included elsewhere in this Annual Report on Form 10-K, are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that the critical accounting policies and estimates discussed below require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

See “Note 1—Nature of Business and Summary of Significant Accounting Policies” in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. Management groups loans into different categories based on loan type to determine the appropriate allowance for each loan

group. Management estimates the allowance balance required using past loan loss experience, current economic conditions, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged off when available information confirms that specific loans, or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each group of loans. Loans that are deemed to be uncollectible are charged off and deducted from the allowance for loan losses. The provision for loan losses and recoveries on loans previously charged off are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired.

The general component covers loans that are collectively evaluated for impairment and loans that are not individually identified for impairment evaluation. The general component is based on historical loss experience adjusted for current factors and includes actual loss history experienced for the preceding rolling twelve year period or less, if twelve years of data is not available. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment using a qualitative scorecard model.

Management's determination of the adequacy of the level of the allowance for loan losses is based on periodic evaluations of the loan portfolio and other relevant factors which are inherently subjective as it requires significant estimates by management. These factors may be susceptible to significant change. Specific reserves reflect estimated losses on impaired loans from managements analyses which involve a high degree of judgement in estimating the amount of loss associated with specific loans, including the amount and timing of future cash flows and collateral values. The general reserve is based on estimate losses of homogeneous loans based historical loss experience, qualitative factors and consideration of current economic trends and conditions. The allowance for loan losses at December 31, 2021 and 2020 was \$6.9 million.

Securities. Management determines the appropriate classification of debt securities at the time of purchase. The fair values of securities available-for-sale and trading securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). Securities to be held for indefinite periods of time, but not necessarily to be held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at fair value, with unrealized gains or losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity in accumulated other comprehensive income.

The valuation of debt securities involves significant judgment, is subject to variability, is established using management's best estimate, and is revised as additional information becomes available. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting our financial position, results of operations and cash flows.

The fair values of investment securities are generally determined by various pricing models. Our procedures include initial and ongoing review of pricing methodologies and trends. We perform an analysis on the pricing of investment securities to ensure that the prices represent a reasonable estimate of the fair value. Depending upon the type of security, management employs various techniques to analyze the pricing it receives from third-parties, such as reviewing model inputs, reviewing comparable trades, analyzing changes in market yields and, in certain instances, reviewing the underlying collateral of the security. Management reviews changes in fair values from period to period and performs testing to ensure that the prices received from third parties are consistent with their expectation of the market.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our Asset Liability Management Policy sets forth guidelines for effective funds management and establishes an approach for measuring and monitoring our net interest rate sensitivity.

Interest rate risk is the probability of an increase or decline in the value of an asset or liability due to fluctuations in interest rates. These fluctuations have an impact on both the level of interest income and interest expense as well as the market value of all interest earning assets and liabilities. The objective is to measure the impact that different interest rate scenarios have on net interest income and ensure that the results are within policy limits while maximizing income. The results can be reflected as an increase or decrease of future net interest income or an increase or decrease of current fair market value.

Exposure to interest rates is managed by structuring the balance sheet in a ‘business as usual’ or ‘base case’ scenario. We do not enter into instruments such as leveraged derivatives, financial options or financial future contracts for the purpose of reducing interest rate risk. We hedge interest rate risk by utilizing interest rate floors, interest rate caps and interest rate swaps. The interest rate floors hedge our cash and securities, the interest rate caps hedge our subordinated debentures and the interest rate swaps hedge our taxable municipal bonds. Based on the nature of our operations, we are not subject to foreign exchange or commodity price risk.

Exposure to interest rate risk is managed by the Bank’s Asset Liability Management Committee in accordance with policies approved by the board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital under the current interest rate outlook, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans, and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits, and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk that include an analysis of relationships between interest earning assets and interest-bearing liabilities as well as utilizing an interest rate simulation model where various rate scenarios can be analyzed.

The following table indicates that, for periods less than one year, rate-sensitive assets exceed rate-sensitive liabilities, resulting in an asset-sensitive position. For a bank with an asset-sensitive position, or positive gap, rising interest rates would generally be expected to have a positive effect on net interest income, and falling interest rates would generally be expected to have the opposite effect. Due to our asset sensitive position, we have implemented a hedging strategy to reduce our interest rate risk exposure in a declining rate environment.

INTEREST SENSITIVITY GAP						
	Within One Month	After One Month Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Non -Sensitive	Total
(Dollars in thousands)						
December 31, 2021						
Assets						
Interest earning assets						
Loans ⁽¹⁾	\$ 1,437,374	\$ 27,105	\$ 108,474	\$ 1,572,953	\$ 214,461	\$ 1,787,414
Securities ⁽²⁾	4,728,658	16,983	128,875	4,874,516	3,784,753	8,659,269
Interest earning deposits in other banks	5,175,472	—	1,265	5,176,737	3,016	5,179,753
Total earning assets	<u>\$ 11,341,504</u>	<u>\$ 44,088</u>	<u>\$ 238,614</u>	<u>\$ 11,624,206</u>	<u>\$ 4,002,230</u>	<u>\$ 15,626,436</u>
Liabilities						
Interest bearing liabilities						
Interest bearing deposits	\$ 76,167	\$ —	\$ —	\$ 76,167	\$ 449	\$ 76,616
Certificates of deposit	—	100	348	448	92	540
Total interest bearing deposits	<u>76,167</u>	<u>100</u>	<u>348</u>	<u>76,615</u>	<u>541</u>	<u>77,156</u>
Total interest bearing liabilities	<u>\$ 76,167</u>	<u>\$ 100</u>	<u>\$ 348</u>	<u>\$ 76,615</u>	<u>\$ 541</u>	<u>\$ 77,156</u>
Period gap	\$ 11,265,337	\$ 43,988	\$ 238,266	\$ 11,547,591	\$ 4,001,689	\$ 15,549,280
Cumulative gap	\$ 11,265,337	\$ 11,309,325	\$ 11,547,591	\$ 11,547,591	\$ 15,549,280	
Ratio of cumulative gap to total earning assets	72.09 %	72.37 %	73.90 %	73.90 %	99.51 %	

(1) Includes loans held-for-sale.

(2) Includes FHLB and FRB stock.

We use quarterly Interest Rate Risk, or IRR, simulations to assess the impact of changing interest rates on our net interest income and net income under a variety of scenarios and time horizons. These simulations utilize both instantaneous and parallel

changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on detailed assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior.

We also use economic value-based methodologies to measure the degree to which the economic values of the Bank's positions change under different interest rate scenarios. The economic-value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static IRR results. In addition, static IRR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management can increase asset duration and decrease liability duration to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

The following table summarizes the results of our IRR analysis in simulating the change in net interest income and fair value of equity over a 12-month horizon as of December 31, 2021.

IMPACT ON NET INTEREST INCOME UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

Earnings at Risk as of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
December 31, 2021	(21.56)%	0.00 %	59.71 %	123.97 %	189.23 %

Utilizing an economic value of equity, or EVE, approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. While this provides some value as a risk measurement tool, management believes IRR is more appropriate in accordance with the going concern principle.

The following table illustrates the results of our EVE analysis as of December 31, 2021.

ECONOMIC VALUE OF EQUITY ANALYSIS UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

As of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
December 31, 2021	(4.56)%	0.00 %	1.44 %	3.83 %	4.19 %

Item 8. Financial Statements and Supplementary Data**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID 173)	58
Consolidated Statements of Financial Condition	60
Consolidated Statements of Operations	61
Consolidated Statements of Comprehensive Income	62
Consolidated Statements of Shareholders' Equity	63
Consolidated Statements of Cash Flows	64
Notes to Consolidated Financial Statements	66

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Silvergate Capital Corporation
La Jolla, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Silvergate Capital Corporation (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the

overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Crowe LLP

We have served as the Company's auditor since 2015.

Costa Mesa, California
February 28, 2022

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands, Except Par Value and Per Share Amounts)

	December 31,	
	2021	2020
ASSETS		
Cash and due from banks	\$ 208,193	\$ 16,405
Interest earning deposits in other banks	5,179,753	2,945,682
Cash and cash equivalents	5,387,946	2,962,087
Securities available-for-sale, at fair value	8,625,259	939,015
Loans held-for-sale, at lower of cost or fair value	893,194	865,961
Loans held-for-investment, net of allowance for loan losses of \$6,916 at December 31, 2021 and 2020	887,304	746,751
Federal home loan and federal reserve bank stock, at cost	34,010	14,851
Accrued interest receivable	40,370	8,698
Premises and equipment, net	3,008	2,072
Derivative assets	34,056	31,104
Other assets	100,348	15,696
Total assets	\$ 16,005,495	\$ 5,586,235
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand accounts	\$ 14,213,472	\$ 5,133,579
Interest bearing accounts	77,156	114,447
Total deposits	14,290,628	5,248,026
Subordinated debentures, net	15,845	15,831
Accrued expenses and other liabilities	90,186	28,079
Total liabilities	14,396,659	5,291,936
Commitments and contingencies		
Preferred stock, \$0.01 par value—authorized 10,000 shares; \$1,000 per share liquidation preference, 200 and 0 shares issued and outstanding at December 31, 2021 and 2020, respectively	2	—
Class A common stock, \$0.01 par value—authorized 125,000 shares; 30,403 and 18,770 shares issued and outstanding at December 31, 2021 and 2020, respectively	304	188
Class B non-voting common stock, \$0.01 par value—authorized 25,000 shares; 0 and 64 shares issued and outstanding at December 31, 2021 and 2020, respectively	—	1
Additional paid-in capital	1,421,592	129,726
Retained earnings	193,860	118,348
Accumulated other comprehensive (loss) income	(6,922)	46,036
Total shareholders' equity	1,608,836	294,299
Total liabilities and shareholders' equity	\$ 16,005,495	\$ 5,586,235

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Year Ended December 31,	
	2021	2020
Interest income		
Loans, including fees	\$ 68,619	\$ 54,732
Taxable securities	36,094	17,465
Tax-exempt securities	17,301	5,062
Other interest earning assets	6,799	1,639
Dividends and other	1,581	692
Total interest income	130,394	79,590
Interest expense		
Deposits	134	5,807
Federal home loan bank advances	—	336
Subordinated debentures and other	993	1,083
Total interest expense	1,127	7,226
Net interest income before provision for loan losses	129,267	72,364
Provision for loan losses	—	742
Net interest income after provision for loan losses	129,267	71,622
Noninterest income		
Mortgage warehouse fee income	3,056	2,539
Deposit related fees	35,981	11,341
Gain on sale of securities, net	5,238	3,753
Gain on sale of loans, net	—	354
Gain on extinguishment of debt	—	925
Other income	981	265
Total noninterest income	45,256	19,177
Noninterest expense		
Salaries and employee benefits	45,794	36,493
Occupancy and equipment	2,464	5,690
Communications and data processing	7,072	5,406
Professional services	9,776	4,460
Federal deposit insurance	13,537	1,172
Correspondent bank charges	2,515	1,533
Other loan expense	1,117	326
Other general and administrative	6,845	4,525
Total noninterest expense	89,120	59,605
Income before income taxes	85,403	31,194
Income tax expense	6,875	5,156
Net income	78,528	26,038
Dividends on preferred stock	3,016	—
Net income available to common shareholders	\$ 75,512	\$ 26,038
Basic earnings per common share	\$ 2.95	\$ 1.39
Diluted earnings per common share	\$ 2.91	\$ 1.36
Weighted average common shares outstanding:		
Basic	25,582	18,691
Diluted	25,922	19,177

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,	
	2021	2020
Net income	\$ 78,528	\$ 26,038
Other comprehensive income (loss):		
Change in net unrealized (loss) gain on available-for-sale securities	(48,731)	38,310
Less: Reclassification adjustment for net gain included in net income	(5,238)	(3,753)
Income tax effect	15,323	(9,670)
Unrealized (loss) gain on available-for-sale securities, net of tax	(38,646)	24,887
Change in net unrealized (loss) gain on derivative assets	(17,780)	22,186
Less: Reclassification adjustment for net gain included in net income	(2,046)	(1,713)
Income tax effect	5,514	(5,725)
Unrealized (loss) gain on derivative instruments, net of tax	(14,312)	14,748
Other comprehensive (loss) income	(52,958)	39,635
Total comprehensive income	\$ 25,570	\$ 65,673

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Share Data)

	Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 1, 2020	—	\$ —	17,775,160	\$ 178	892,836	\$ 9	\$ 132,138	\$ 92,310	\$ 6,401	\$ 231,036
Total comprehensive income, net of tax	—	—	—	—	—	—	—	26,038	39,635	65,673
Conversion of Class B common stock to Class A common stock	—	—	828,639	8	(828,639)	(8)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	884	—	—	884
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	—	—	165,972	2	—	—	(3,296)	—	—	(3,294)
Balance at December 31, 2020	—	—	18,769,771	188	64,197	1	129,726	118,348	46,036	294,299
Total comprehensive income, net of tax	—	—	—	—	—	—	—	78,528	(52,958)	25,570
Dividends on preferred stock	—	—	—	—	—	—	—	(3,016)	—	(3,016)
Net proceeds from stock issuance	200,000	2	11,164,214	111	—	—	1,291,323	—	—	1,291,436
Conversion of Class B common stock to Class A common stock	—	—	64,197	1	(64,197)	(1)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	1,932	—	—	1,932
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	—	—	404,524	4	—	—	(1,389)	—	—	(1,385)
Balance at December 31, 2021	<u>200,000</u>	<u>\$ 2</u>	<u>30,402,706</u>	<u>\$ 304</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 1,421,592</u>	<u>\$ 193,860</u>	<u>\$ (6,922)</u>	<u>\$ 1,608,836</u>

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 78,528	\$ 26,038
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,620	5,584
Amortization of securities premiums and discounts, net	55,003	3,890
Amortization of loan premiums and discounts and deferred loan origination fees and costs, net	604	825
Stock-based compensation	1,932	884
Provision for loan losses	—	742
Originations of loans held-for-sale	(12,655,625)	(7,728,152)
Proceeds from sales of loans held-for-sale	12,628,392	7,227,762
Other gains, net	(9,202)	(8,684)
Other, net	(174)	(70)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(93,948)	(6,779)
Accrued expenses and other liabilities	71,628	(1,354)
Net cash provided by (used in) operating activities	79,758	(479,314)
Cash flows from investing activities		
Purchases of securities available-for-sale	(9,648,657)	(283,706)
Proceeds from sale of securities available-for-sale	1,465,506	216,355
Proceeds from paydowns and maturities of securities available-for-sale	381,354	58,769
Loan originations/purchases and payments, net	(141,157)	(109,442)
Proceeds from sale of loans held-for-sale previously classified as held-for-investment	—	36,400
Purchase of federal home loan and federal reserve bank stock, net	(19,160)	(4,587)
Purchase of premises and equipment	(1,922)	(916)
(Payments for) proceeds from derivative contracts, net	(19,494)	16,372
Other, net	(6)	173
Net cash used in investing activities	(7,983,536)	(70,582)
Cash flows from financing activities		
Net change in noninterest bearing deposits	9,079,893	3,789,913
Net change in interest bearing deposits	(37,291)	(356,541)
Net change in federal home loan bank advances	—	(48,075)
Payments made on notes payable	—	(3,714)
Proceeds from common stock issuance, net	1,097,815	—
Proceeds from preferred stock issuance, net	193,621	—
Payments of preferred stock dividends	(3,016)	—
Proceeds from stock option exercise	1,923	41
Taxes paid related to net share settlement of equity awards	(3,308)	(3,335)
Other, net	—	90
Net cash provided by financing activities	10,329,637	3,378,379
Net increase in cash and cash equivalents	2,425,859	2,828,483
Cash and cash equivalents, beginning of period	2,962,087	133,604
Cash and cash equivalents, end of period	\$ 5,387,946	\$ 2,962,087

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands)

	Year Ended December 31,	
	2021	2020
Supplemental cash flow information:		
Cash paid for interest	\$ 1,164	\$ 7,526
Income taxes paid, net	9,638	5,965
Supplemental noncash disclosures:		
Loans held-for-investment transferred to loans held-for-sale	\$ —	\$ 30,792
Loans held-for-sale transferred to loans held-for-investment	—	5,098
Loans transferred to other real estate owned	—	51
Right-of-use assets obtained in exchange for new operating lease liabilities	3,512	—

See accompanying notes to consolidated financial statements

SILVERGATE CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Nature of Business and Summary of Significant Accounting Policies

Nature of Business

The accompanying consolidated financial statements include the accounts of Silvergate Capital Corporation, a Maryland corporation, and its wholly-owned subsidiary, Silvergate Bank (the “Bank”), collectively referred to as (the “Company” or “Silvergate”).

The Company’s assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve (“Federal Reserve”). The Bank is subject to regulation by the California Department of Financial Protection and Innovation, Division of Financial Institutions (“DFPI”), and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco (“FRB”). The Bank’s deposits are insured up to legal limits by the Federal Deposit Insurance Corporation (“FDIC”).

The Bank provides financial services that include commercial banking, mortgage warehouse lending, commercial business lending and real estate lending. In 2013, the Company began exploring the digital currency industry and has significantly expanded the product and services since that time to support the Company’s growing digital currency initiative, including the implementation of deposit and cash management services for the digital currency related businesses domestically and internationally. Correspondingly, the Company has significantly de-emphasized real estate lending and lending activities are focused on digital currency collateralized loans and mortgage warehouse loans.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all other entities in which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. The accounting and reporting policies of the Company conform with Generally Accepted Accounting Principles (“GAAP”) and conform to predominant practices within the financial services industry. Significant accounting policies followed by the Company are presented below.

Reclassifications

Certain immaterial reclassifications have been made to the consolidated financial statements to conform to the current year’s presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the accompanying notes, as well as the reported amounts of revenue and expense during the reporting period. Management bases estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Management evaluates estimates on an ongoing basis including the economic impact of Coronavirus Disease 2019 (or “COVID-19”). Actual results could materially differ from those estimates under different assumptions or conditions.

The following accounting policies, together with those disclosed elsewhere in the consolidated financial statements, represent the significant accounting policies of the Company.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and interest earning deposits in other banks, including federal funds sold. The Company maintains amounts due from Banks which exceed federally insured limits. The Company has not experienced any losses in such accounts. Net cash flows are reported for customer loan and deposit transactions. Interest earning deposits in other banks include funds held in other financial institutions that are either fixed or variable rate instruments, including certificates of deposits.

Securities

Management determines the appropriate classification of debt securities at the time of purchase. The fair values of securities available-for-sale and trading securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities

without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Securities to be held for indefinite periods of time, but not necessarily to be held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at fair value, with unrealized gains or losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity in accumulated other comprehensive income.

Interest income is recognized under the interest method and includes amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts on securities are amortized or accreted based on a level yield methodology, without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Realized gains or losses on the sale of securities are determined using the specific identification method and are recorded on settlement date. Securities classified as available-for-sale include securities that management intends to use as part of its asset / liability management strategy and may be sold to provide liquidity in response to changes in interest rates, prepayment risk, or other related factors. Securities classified as held-to-maturity are carried at amortized cost when management has the positive intent to hold the securities to maturity.

Management evaluates securities for other than temporary impairment (OTTI) on a monthly basis. Management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Evidence evaluated includes, but is not limited to, the remaining payment terms of the instrument and economic factors that are relevant to the collectability of the instrument, such as: current prepayment speeds, the current financial condition of the issuer(s), industry analyst reports, credit ratings, credit default rates, interest rate trends, the quality of any credit enhancement and the value of any underlying collateral.

For each security in an unrealized loss position, the Company assesses whether it intends to sell the security or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. If the Company intends to sell the security or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date is recognized in earnings.

For impaired securities that are not intended for sale and will not be required to be sold prior to recovery of the Company's amortized cost basis, the Company determines if the impairment has a credit loss component. For both held-to-maturity and available-for-sale securities, if there is no credit loss, no further action is required. For both held-to-maturity and available-for-sale securities, if the amount or timing of cash flows expected to be collected are less than those at the last reporting date, an other-than-temporary impairment shall be considered to have occurred and the credit loss component is recognized in earnings as the present value of the change in expected future cash flows. In determining the present value of the expected cash flows the Company discounts the expected cash flows at the effective interest rate implicit in the security at the date of purchase. The remaining difference between the security's fair value and the amortized basis is deemed to be due to factors that are not credit related and is recognized in other comprehensive income, net of applicable taxes.

Loans Held-for-investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees, unamortized premiums and discounts and an allowance for loan loss. Interest on loans is accrued using the effective interest method based on principal amounts outstanding.

Nonrefundable loan fees and certain direct costs associated with the origination of loans are deferred and recognized as an adjustment to interest income over the contractual life of the loans using the level yield method, without anticipating prepayments, or straight-lined for loans with revolving features such as construction loans or lines of credit. The accretion of loan fees and costs is discontinued on nonaccrual loans.

In addition to originating loans, the Company may, from time to time, purchases individual loans and groups of loans. For those purchased loans that management intends to hold for the foreseeable future or until maturity, the purchase premiums and discounts are amortized or accreted using the effective interest method over the remaining contractual life of the loan or straight-lined to their estimated termination for loans with revolving features such as reverse mortgages.

Nonaccrual Loans

Loans are placed on nonaccrual status when, in the opinion of management, the full and timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become 90 or more days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of the principal or interest is considered doubtful. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of unpaid amounts on such a loan are applied to reduce principal when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income.

Nonaccrual loans may be restored to accrual status if and when principal and interest become current and full repayment is expected, which is typically after six months of continuous on time payments.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Management groups loans into different categories based on loan type to determine the appropriate allowance for each loan group. Management estimates the allowance balance required using past loan loss experience, current economic conditions, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged off when available information confirms that specific loans, or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each group of loans. Loans that are deemed to be uncollectible are charged off and deducted from the allowance for loan losses. The provision for loan losses and recoveries on loans previously charged off are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

A loan is considered impaired when full payment under the loan terms is not expected. Impairment is evaluated on an individual loan basis for all loans that meet the criteria for specifically evaluated impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net of the present value of estimated future cash flows using the loan's original effective rate or at the fair value of collateral less estimated costs to sell if repayment is expected solely from the collateral. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Large groups of smaller-balance homogeneous loans such as residential real estate loans are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired. Management considered the significance of payment delays on a case by case basis, taking into consideration all the circumstances of the loan and borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to principal and interest owed.

The general component covers loans that are collectively evaluated for impairment and loans that are not individually identified for impairment evaluation. The general component is based on historical loss experience adjusted for current factors and includes actual loss history experienced for the preceding rolling twelve-year period or less, if twelve years of data is not available. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment using a qualitative scorecard model. Qualitative adjustments to historic loss rates are made for each portfolio segment based on the following factors: changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses; changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments; changes in the nature and volume of the portfolio and in the terms of loans; changes in the experience, ability, and depth of lending management and other relevant staff; changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans; changes in the quality of the institution's loan review system; changes in the value of underlying collateral for collateral-dependent loans; the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio. The range of qualitative adjustments applied to each portfolio segment is based on management's evaluation of risk factors applied to historic loan and net-charge-off experience for peer data as reported in the call report for each specific loan portfolio segment. For the commercial and industrial loan segment a different methodology is used to estimate the allowance based on qualitative adjustments only, primarily trends in collateral, changes in nature and volume of the portfolio, concentration risk and external factors, due to the lack of historical loss rates and peer data available for that portfolio segment.

Troubled Debt Restructurings

Loans are reported as TDRs when the Company grants concessions to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date, or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Company will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. TDRs are individually evaluated for impairment and included in separately identified impairment disclosures. TDRs are measured at the present value of estimated cash flows using the loan's

effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determined the amount of the allowance on the loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company incorporates recent historical experience related to TDRs, including the performance of TDRs that subsequently defaulted, into the allowance calculation by loan portfolio segment.

Loans Held-for-sale

Certain loans originated or acquired and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, as determined by outstanding commitments from investors. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

Transfers of loans are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control through an agreement to purchase them before their maturity.

In the event of a breach of representations and warranties, the Company may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by the Company. If there is no breach of a representation and warranty provision, the Company has no obligation to repurchase the loan or indemnify the investor against loss. In cases where the Company repurchases loans, it bears the subsequent credit loss on the loans. Repurchased loans are classified as held-for-sale and are initially recorded at fair value until disposition. The Company seeks to manage the risk of repurchase and associated credit exposure through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards.

Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) Stock

The Bank is a member of the FHLB of San Francisco and the FRB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Investments in nonmarketable equity securities, such as FHLB stock and FRB stock, are recorded at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Amortization of leasehold improvements is computed on a straight-line basis over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter. Depreciation of equipment, furniture, and automobiles is charged to operating expense over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives of equipment, furniture, and automobiles range from three to ten years. Software is stated at cost less accumulated amortization. Amortization of software is computed on a straight-line basis over the shorter of the estimated useful life of the software or contract, and this period is typically three to five years.

Loan Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivative Financial Instruments

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company’s intention and belief as the likely effectiveness as a hedge. These three types are (1) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), or (3) an instrument with no hedging designation (“stand alone derivative”). For a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same period during which the hedged transaction affects the earnings. The changes in fair value of derivatives that do not qualify for hedge accounting are reported in current earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in

noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the item being hedged.

The Company formally documents the relationship between the derivative and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting the changes in fair values or cash flows of the hedged items. The initial fair value of hedge components excluded from the assessment of effectiveness is recognized in the statement of financial condition under a systematic and rational method over the life of the hedging instrument and is presented in the same income statement line item as the earnings effect of the hedged item. Any difference between the change in the fair value of the hedge components excluded from the assessment of effectiveness and the amounts recognized in earnings is recorded as a component of other comprehensive income.

The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair values or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligation under the agreements. All the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business. The Company has elected to not offset fair value amounts and present derivative assets and liabilities on a gross basis in the statement of financial condition.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax amounts attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, computed using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company accounts for uncertainty in tax positions taken or expected to be taken on a tax return in accordance with FASB ASC Topic 740, *Accounting for Income Taxes*, and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties, if any, related to uncertain tax positions are recorded as part of income tax expense.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, *Compensation—Stock Compensation*, that generally requires entities to recognize the cost of employee services received in exchange for awards of stock options, restricted stock or other equity instruments, based on the grant date fair value of those awards. Compensation cost is recognized for awards issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period.

Fair Value Measurement

The Company measures and presents fair values in accordance with FASB ASC Topic 820, *Fair Value Measurement*, that defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. This standard establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on

the measurement date. This standard's fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2—Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Revenue Recognition

On January 1, 2018, the Company adopted FASB ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), which establishes a single framework for recognizing revenue from contracts with customers that fall within its scope. The core principle of the guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenues are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and derivatives and investment securities, as these activities are subject to other applicable GAAP. Revenue streams within the scope of and accounted under ASC 606 include service charges and fees on deposit accounts, fees from other services the Company provides its customers, such as mortgage warehouse fee income and foreign exchange fee income and gains and losses from the sale of property, premises and equipment. These revenue streams are presented in the Company's consolidated statements of operations as components of noninterest income.

Service charges on deposit accounts and other service fee income consist of periodic service charges on deposit accounts and transaction based fees such as those related to wire transfer fees, ACH fees, stop payment fees, insufficient funds fees, foreign exchange fee income and mortgage warehouse fees. Performance obligations for periodic service charges are typically short-term in nature, can be canceled anytime by the customer or the Company and are generally satisfied over a monthly period, while performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligation beyond the completion of the service or transaction. Periodic service charges are generally collected directly from a customer's deposit account on a monthly basis, at the end of a statement cycle, while transaction-based service charges are typically collected and earned at the time of or soon after the service is performed.

Other revenue streams that may be applicable to the Company include gains and losses from the sale of non-financial assets such as property, premises and equipment. The Company accounts for these revenue streams in accordance with ASC 610-20, which requires the Company to refer to guidance in ASC 606 in the application of certain measurement and recognition concepts. The Company records gains and losses on the sale of non-financial assets when control of the asset has been surrendered to the buyer, which generally occurs at a specific point in time.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding and any dilutive common equivalent shares resulting from stock options or awards.

Comprehensive Income

The Company presents comprehensive income in accordance with FASB ASC Topic 220, *Comprehensive Income*, that requires the disclosure of comprehensive income (loss) and its components. Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and the change in the fair value of cash flow hedges, net of deferred tax effects, which are also recognized as a separate component of equity.

Recently Issued Accounting Pronouncements Not Yet Effective

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (or “ASU”) 2016-13, Financial Instruments—Credit Losses (Topic 326) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (or “CECL”) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. These amendments were initially effective for fiscal years beginning after December 15, 2019 for SEC registrants and after December 15, 2020, for Public Business Entities, or PBEs. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, which finalized the delay of the effective date for smaller reporting companies, as of the ASU 2019-10 effective date, such as the Company to apply the standards related to CECL, until fiscal years beginning after December 15, 2022. For debt securities with other than temporary impairment (OTTI), the guidance will be applied prospectively and for existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets with the scope of CECL, the cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The Company formed a CECL implementation committee in 2018 which prepared a project plan to migrate towards the adoption date. As part of the project plan, the Company contracted a third-party vendor to assist in the application and analysis of ASU 2016-13 as well as a third party vendor to perform an independent model validation. As part of this process, the Company has determined preliminary loan pool segmentation under CECL, as well as evaluated the key economic loss drivers for each segment. The Company operationalized an initial CECL model during the second quarter of 2019 and is running this preliminary CECL model alongside the existing incurred loss methodology. The Company intends to continue to refine and run the model until the expected adoption date on January 1, 2023. The Company continues to evaluate the effects of ASU 2016-13 on its financial statements and disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (or “ASU 2020-04”), which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the London Interbank Offered Rate (or “LIBOR”) or other interbank offered rate (reference rates) on financial reporting. On March 5, 2021, the U.K. Financial Conduct Authority, the regulatory supervisor for ICE Benchmark Administration, the administrator of LIBOR, announced that the overnight and one, three, six and twelve month USD LIBOR will be discontinued on June 30, 2023. It was originally expected that LIBOR would be discontinued by the end of 2021. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. The expedients and exceptions in this update are available to all entities starting March 12, 2020 through December 31, 2022. In January 2020, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which clarifies the scope of Topic 848 to include derivative instruments impacted by discounting transition. The Company has created a subcommittee of the Asset Liability Management Committee to address the LIBOR transition and phase-out issues. The Company has identified its LIBOR-based contracts that will be impacted by the transition away from of LIBOR, and is incorporating fallback language in negotiated contracts and incorporating non-LIBOR reference rate and/or fallback language in new contracts to prepare for these changes. The Company is evaluating the impact that ASU 2020-04 will have on those financial assets where LIBOR is used as an index rate.

Except for the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to the Company’s consolidated financial statements.

Note 2—Securities

The fair value of available-for-sale securities and their related gross unrealized gains and losses at the dates indicated are as follows:

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2021				
U.S. agency securities - excluding mortgage-backed securities	\$ 1,177,452	\$ 7,320	\$ (6,005)	\$ 1,178,767
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	1,428,365	130	(14,378)	1,414,117
Government agency collateralized mortgage obligation	1,659,125	1,617	(15,739)	1,645,003
Private-label collateralized mortgage obligation	1,425	19	(11)	1,433
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	1,106,680	1,886	(4,962)	1,103,604
Government agency collateralized mortgage obligation	212,266	19	(1,370)	210,915
Private-label collateralized mortgage obligation	144,204	227	(797)	143,634
Municipal bonds:				
Tax-exempt	2,272,794	33,153	(8,210)	2,297,737
Taxable	403,279	341	(6,016)	397,604
Asset backed securities:				
Government sponsored student loan pools	233,374	97	(1,026)	232,445
	<u>\$ 8,638,964</u>	<u>\$ 44,809</u>	<u>\$ (58,514)</u>	<u>\$ 8,625,259</u>

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2020				
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	\$ 5,701	\$ 18	\$ (55)	\$ 5,664
Government agency collateralized mortgage obligation	197,978	371	(298)	198,051
Private-label collateralized mortgage obligation	20,544	399	(256)	20,687
Commercial mortgage-backed securities:				
Private-label collateralized mortgage obligation	164,214	18,322	—	182,536
Municipal bonds:				
Tax-exempt	246,159	24,200	—	270,359
Taxable	15,307	695	—	16,002
Asset backed securities:				
Government sponsored student loan pools	248,848	17	(3,149)	245,716
	<u>\$ 898,751</u>	<u>\$ 44,022</u>	<u>\$ (3,758)</u>	<u>\$ 939,015</u>

There were no investment securities pledged for borrowings or for other purposes as required or permitted by law as of December 31, 2021 and 2020.

Securities with unrealized losses as of the dates indicated, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2021						
U.S. agency securities - excluding mortgage-backed securities	\$ 761,711	\$ (6,005)	\$ —	\$ —	\$ 761,711	\$ (6,005)
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	1,357,080	(14,378)	70	—	1,357,150	(14,378)
Government agency collateralized mortgage obligation	1,513,388	(15,732)	650	(7)	1,514,038	(15,739)
Private-label collateralized mortgage obligation	—	—	433	(11)	433	(11)
Commercial mortgage-backed securities:						
Government agency mortgage-backed securities	435,055	(4,962)	—	—	435,055	(4,962)
Government agency collateralized mortgage obligation	189,397	(1,370)	—	—	189,397	(1,370)
Private-label collateralized mortgage obligation	98,173	(656)	6,791	(141)	104,964	(797)
Municipal bonds:						
Tax-exempt	1,025,689	(8,210)	—	—	1,025,689	(8,210)
Taxable	339,041	(6,016)	—	—	339,041	(6,016)
Asset backed securities:						
Government sponsored student loan pools	168,204	(803)	32,783	(223)	200,987	(1,026)
	<u>\$ 5,887,738</u>	<u>\$ (58,132)</u>	<u>\$ 40,727</u>	<u>\$ (382)</u>	<u>\$ 5,928,465</u>	<u>\$ (58,514)</u>
	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2020						
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	\$ 5,165	\$ (55)	\$ —	\$ —	\$ 5,165	\$ (55)
Government agency collateralized mortgage obligation	120,912	(172)	56,976	(126)	177,888	(298)
Private-label collateralized mortgage obligation	290	(7)	9,950	(249)	10,240	(256)
Asset backed securities:						
Government sponsored student loan pools	—	—	240,825	(3,149)	240,825	(3,149)
	<u>\$ 126,367</u>	<u>\$ (234)</u>	<u>\$ 307,751</u>	<u>\$ (3,524)</u>	<u>\$ 434,118</u>	<u>\$ (3,758)</u>

As indicated in the tables above, as of December 31, 2021, the Company's investment securities had gross unrealized losses totaling approximately \$58.5 million, compared to approximately \$3.8 million at December 31, 2020. The Company analyzes all of its securities with an unrealized loss position. For each security, the Company analyzed the credit quality and performed a projected cash flow analysis. In analyzing the credit quality, management may consider whether the securities are issued by the federal government, its agencies or its sponsored entities, or non-governmental entities, whether downgrades by

bond rating agencies have occurred, and if credit quality has deteriorated. When performing a cash flow analysis the Company uses models that project prepayments, default rates, and loss severities on the collateral supporting the security, based on underlying loan level borrower and loan characteristics and interest rate assumptions. Based on these analyses and reviews conducted by the Company, and assisted by independent third parties, the Company determined that none of its securities required an other-than-temporary impairment charge at December 31, 2021 or December 31, 2020. Management continues to expect to recover the adjusted amortized cost basis of these bonds.

As of December 31, 2021, the Company had 323 securities whose estimated fair value declined 0.98% from the Company's amortized cost; at December 31, 2020, the Company had 30 securities whose estimated fair value declined 0.86% from the Company's amortized cost. These unrealized losses on securities are primarily due to widening of credit spreads or changes in market interest rates since their purchase dates. Current unrealized losses are expected to recover as the securities approach their respective maturity dates. Management believes it will more than likely not be required to sell before recovery of the amortized cost basis.

For the year ended December 31, 2021 the Company received \$1.5 billion in proceeds, recognized \$15.9 million in gains and \$10.6 million in losses on sales of available for sale securities. For the year ended December 31, 2020 the Company received \$216.4 million in proceeds, recognized \$4.7 million in gains and \$0.9 million in losses on sales of securities. The tax expense related to the net realized gains and losses were \$1.5 million and \$1.3 million for the years ended December 31, 2021 and 2020 respectively.

There were no credit losses associated with our securities portfolio recognized in earnings for the years ended December 31, 2021 and 2020.

The amortized cost and estimated fair value of investment securities as of the periods presented by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of the following table, the entire outstanding balance of residential and commercial mortgage-backed securities is categorized based on the final maturity date.

	December 31,			
	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Available-for-sale securities				
Within one year	\$ —	\$ —	\$ —	\$ —
After one year through five years	2,243	2,170	—	—
After five years through ten years	1,406,395	1,401,733	14,021	15,694
After ten years	7,230,326	7,221,356	884,730	923,321
Total	\$ 8,638,964	\$ 8,625,259	\$ 898,751	\$ 939,015

Note 3—Loans

The following disclosure reports the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level in which the Company has adopted systematic methods of documentation for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company's loan portfolio segments are:

Real estate. Real estate loans include loans for which the Company holds one-to-four family, multi-family, commercial and construction real property as collateral. One-to-four family real estate loans primarily consist of non-qualified single-family residential mortgage loans and purchases of loan pools. Multi-family real estate loans have been offered for the purchase or refinancing of apartment properties located primarily in the Southern California market area. Commercial real estate lending activity has historically been primarily focused on investor properties that are owned by customers with a current banking relationship. The primary risks of real estate mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate mortgage loan unprofitable. Real estate loans also may be adversely affected by conditions in the real estate markets or in the general economy.

Commercial and industrial. Commercial and industrial loans consist of U.S. dollar denominated loans to businesses that are collateralized almost exclusively by bitcoin or U.S. dollars, also known as our core lending product, SEN Leverage. Commercial and industrial loans may also consist of loans and lines of credit to businesses that are generally collateralized by accounts receivable, inventory, equipment, loan and lease receivables and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. Risks may arise from differences between expected and actual cash flows and/or liquidity levels of the borrowers, as well as the type of collateral securing these loans and the reliability of the

conversion thereof to cash. Borrowers accessing SEN Leverage provide bitcoin or U.S. dollars as collateral in an amount greater than the line of credit eligible to be advanced. The Bank works with regulated digital currency exchanges and other indirect lenders, as the case may be, to both act as its collateral custodian for such loans, and to liquidate the collateral in the event of a decline in collateral coverage below levels required in the borrower's loan agreement. At no time does the Bank directly hold the pledged bitcoin digital currency. The Bank sets collateral coverage ratios at levels intended to yield collateral liquidation proceeds in excess of the borrower's loan amount, but the borrower remains obligated for the payment of any deficiency notwithstanding any change in the condition of the exchange, financial or otherwise. The outstanding balance of gross SEN Leverage loans was \$335.9 million and \$77.2 million at December 31, 2021 and 2020, respectively.

Reverse mortgage and other. From 2012 to 2014, the Company purchased home equity conversion mortgage ("HECM") loans (also known as reverse mortgage loans) which are a special type of home loan, for homeowners aged 62 years or older, that requires no monthly mortgage payments and allows the borrower to receive payments from the lender. Reverse mortgage loan insurance is provided by the U. S. Federal Housing Administration through the HECM program which protects lenders from losses due to non-repayment of the loans when the outstanding loan balance exceeds collateral value at the time the loan is required to be repaid. Other loans consist of consumer loans and loans secured by personal property.

Mortgage warehouse. The Company's mortgage warehouse lending division provides short-term interim funding primarily for single-family residential mortgage loans originated by mortgage bankers or other lenders. The Company holds legal title to such loans from the date they are funded by the Company until the loans are sold to secondary market investors pursuant to pre-existing take out commitments, generally within a few weeks of origination, with loan sale proceeds applied to pay down Company funding. The Company's mortgage warehouse loans may either be held-for-investment or held-for-sale depending on the underlying contract. At December 31, 2021 and 2020, gross mortgage warehouse loans were approximately \$1.1 billion and \$963.9 million, respectively.

A summary of loans as of the periods presented are as follows:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Real estate loans:		
One-to-four family	\$ 105,098	\$ 187,855
Multi-family	56,751	77,126
Commercial	210,136	301,901
Construction	7,573	6,272
Commercial and industrial	335,862	78,909
Reverse mortgage and other	1,410	1,495
Mortgage warehouse	177,115	97,903
Total gross loans held-for-investment	893,945	751,461
Deferred fees, net	275	2,206
Total loans held-for-investment	894,220	753,667
Allowance for loan losses	(6,916)	(6,916)
Total loans held-for-investment, net	\$ 887,304	\$ 746,751
Total loans held-for-sale ⁽¹⁾	\$ 893,194	\$ 865,961

(1) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented

At December 31, 2021 and 2020, approximately \$381.0 million and \$574.5 million, respectively, of the Company's gross loans held-for-investment was collateralized by various forms of real estate, primarily located in California. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. At December 31, 2021 and 2020, approximately \$335.9 million and \$77.2 million, respectively, of the Company's gross loans held-for-investment was collateralized primarily by bitcoin and U.S. dollars. The loan to value ratio of these loans fluctuates in relation to value of bitcoin held as collateral, which may be volatile and there is no assurance that customers will be able to timely provide additional collateral under these loans in a scenario where the value of the bitcoin drops precipitously. The Company monitors and manages concentrations of credit risk by making loans that are diversified by collateral type, placing limits on the amounts of various categories of loans relative to total Company capital, and conducting quarterly reviews of its portfolio by collateral type, geography, and other characteristics.

Recorded investment in loans excludes accrued interest receivable due to immateriality. Accrued interest on loans held-for-investment totaled approximately \$3.3 million and \$2.7 million at December 31, 2021 and 2020, respectively.

Allowance for Loan Losses

The following tables present the allocation of the allowance for loan losses, as well as the activity in the allowance by loan class, and recorded investment in loans held-for-investment as of and for the periods presented:

	Year Ended December 31, 2021							
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, December 31, 2020	\$ 1,245	\$ 878	\$ 1,810	\$ 590	\$ 1,931	\$ 39	\$ 423	\$ 6,916
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(222)	(196)	207	186	(365)	(27)	417	—
Balance, December 31, 2021	<u>\$ 1,023</u>	<u>\$ 682</u>	<u>\$ 2,017</u>	<u>\$ 776</u>	<u>\$ 1,566</u>	<u>\$ 12</u>	<u>\$ 840</u>	<u>\$ 6,916</u>
	December 31, 2021							
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Amount of allowance attributed to:								
Specifically evaluated impaired loans	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 29
General portfolio allocation	994	682	2,017	776	1,566	12	840	6,887
Total allowance for loan losses	<u>\$ 1,023</u>	<u>\$ 682</u>	<u>\$ 2,017</u>	<u>\$ 776</u>	<u>\$ 1,566</u>	<u>\$ 12</u>	<u>\$ 840</u>	<u>\$ 6,916</u>
Loans evaluated for impairment:								
Specifically evaluated	\$ 4,229	\$ —	\$ 1,956	\$ —	\$ —	\$ 923	\$ —	\$ 7,108
Collectively evaluated	101,609	56,855	208,170	7,502	335,362	499	177,115	887,112
Total loans held-for-investment	<u>\$ 105,838</u>	<u>\$ 56,855</u>	<u>\$ 210,126</u>	<u>\$ 7,502</u>	<u>\$ 335,362</u>	<u>\$ 1,422</u>	<u>\$ 177,115</u>	<u>\$ 894,220</u>
	Year Ended December 31, 2020							
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, December 31, 2019	\$ 2,051	\$ 653	\$ 2,791	\$ 96	\$ 312	\$ 38	\$ 250	\$ 6,191
Charge-offs	(17)	—	—	—	—	—	—	(17)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(789)	225	(981)	494	1,619	1	173	742
Balance, December 31, 2020	<u>\$ 1,245</u>	<u>\$ 878</u>	<u>\$ 1,810</u>	<u>\$ 590</u>	<u>\$ 1,931</u>	<u>\$ 39</u>	<u>\$ 423</u>	<u>\$ 6,916</u>
	December 31, 2020							
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Amount of allowance attributed to:								
Specifically evaluated impaired loans	\$ 11	\$ —	\$ —	\$ —	\$ —	\$ 29	\$ —	\$ 40
General portfolio allocation	1,234	878	1,810	590	1,931	10	423	6,876
Total allowance for loan losses	<u>\$ 1,245</u>	<u>\$ 878</u>	<u>\$ 1,810</u>	<u>\$ 590</u>	<u>\$ 1,931</u>	<u>\$ 39</u>	<u>\$ 423</u>	<u>\$ 6,916</u>
Loans evaluated for impairment:								
Specifically evaluated	\$ 5,795	\$ —	\$ 9,713	\$ —	\$ 274	\$ 879	\$ —	\$ 16,661
Collectively evaluated	184,405	77,288	292,367	6,137	78,275	631	97,903	737,006
Total loans held-for-investment	<u>\$ 190,200</u>	<u>\$ 77,288</u>	<u>\$ 302,080</u>	<u>\$ 6,137</u>	<u>\$ 78,549</u>	<u>\$ 1,510</u>	<u>\$ 97,903</u>	<u>\$ 753,667</u>

Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of and for the year then ended:

December 31, 2021					
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	\$ 4,616	\$ 3,927	\$ —	\$ 5,719	\$ 303
Commercial	1,955	1,956	—	7,906	477
Commercial and industrial	—	—	—	182	15
Reverse mortgage and other	914	923	—	825	—
	7,485	6,806	—	14,632	795
With an allowance recorded:					
Real estate loans:					
One-to-four family	323	302	29	258	12
Reverse mortgage and other	—	—	—	65	—
	323	302	29	323	12
Total impaired loans	\$ 7,808	\$ 7,108	\$ 29	\$ 14,955	\$ 807

December 31, 2020					
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	\$ 6,432	\$ 5,730	\$ —	\$ 3,748	\$ 215
Commercial	9,723	9,713	—	4,620	522
Commercial and industrial	274	274	—	1,680	25
Reverse mortgage and other	523	531	—	516	—
	16,952	16,248	—	10,564	762
With an allowance recorded:					
Real estate loans:					
One-to-four family	64	65	11	65	5
Reverse mortgage and other	346	348	29	342	—
	410	413	40	407	5
Total impaired loans	\$ 17,362	\$ 16,661	\$ 40	\$ 10,971	\$ 767

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs. Cash basis interest income is not materially different than interest income recognized.

Nonaccrual and Past Due Loans

Nonperforming loans include individually evaluated impaired loans, loans for which the accrual of interest has been discontinued and loans 90 days or more past due and still accruing interest.

The following tables present by loan class the aging analysis based on contractual terms, nonaccrual loans, and the Company's recorded investment in loans held-for-investment as of the periods presented:

	December 31, 2021								
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Nonaccruing	Loans Receivable > 89 Days and Accruing	
(Dollars in thousands)									
Real estate loans:									
One-to-four family	\$ 1,176	\$ —	\$ 2,985	\$ 4,161	\$ 101,677	\$ 105,838	\$ 3,080	\$ —	
Multi-family	—	—	—	—	56,855	56,855	—	—	
Commercial	—	—	—	—	210,126	210,126	—	—	
Construction	—	—	—	—	7,502	7,502	—	—	
Commercial and industrial	—	—	—	—	335,362	335,362	—	—	
Reverse mortgage and other	—	—	—	—	1,422	1,422	923	—	
Mortgage warehouse	—	—	—	—	177,115	177,115	—	—	
Total loans held-for-investment	\$ 1,176	\$ —	\$ 2,985	\$ 4,161	\$ 890,059	\$ 894,220	\$ 4,003	\$ —	
December 31, 2020									
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Nonaccruing	Loans Receivable > 89 Days and Accruing	
(Dollars in thousands)									
Real estate loans:									
One-to-four family	\$ 1,006	\$ 26	\$ 3,866	\$ 4,898	\$ 185,302	\$ 190,200	\$ 4,105	\$ —	
Multi-family	206	—	—	206	77,082	77,288	—	—	
Commercial	—	—	—	—	302,080	302,080	—	—	
Construction	—	—	—	—	6,137	6,137	—	—	
Commercial and industrial	—	—	—	—	78,549	78,549	—	—	
Reverse mortgage and other	—	—	—	—	1,510	1,510	879	—	
Mortgage warehouse	—	—	—	—	97,903	97,903	—	—	
Total loans held-for-investment	\$ 1,212	\$ 26	\$ 3,866	\$ 5,104	\$ 748,563	\$ 753,667	\$ 4,984	\$ —	

Troubled Debt Restructurings

A loan is identified as a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All troubled debt restructurings are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

As of December 31, 2021 and 2020, the Company had a recorded investment in TDRs of \$1.7 million and \$1.5 million, respectively. The Company has allocated \$29,000 of specific allowance for those loans at December 31, 2021 and \$11,000 at December 31, 2020. The Company has not committed to advance additional amounts on these TDRs. No loans were modified as TDRs during the year ended December 31, 2020.

Modifications of loans classified as TDRs during the periods presented, are as follows:

	Year Ended December 31, 2021		
	Number of Loans	Pre- Modifications Outstanding Recorded Investment	Post- Modifications Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled debt restructurings:			
Real estate loans:			
One-to-four family	2	\$ 547	\$ 590

The TDR's described above increased the allowance for loan losses by \$19,000 and had no impact to charge-offs during the year ended December 31, 2021.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. There were no loans modified as TDRs for which there was a payment default within twelve months during the year ended December 31, 2021 or 2020. There was no provision for loan loss or charge offs for TDR's that subsequently defaulted during the year ended December 31, 2021 or 2020.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. This analysis typically includes larger, nonhomogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass:	Loans in all classes that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
Special mention:	Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
Substandard:	Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
Doubtful:	Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
Loss:	Credits rated as loss are charged-off. Management has no expectation of the recovery of any payments in respect of credits rated as loss.

The following tables present by portfolio class the Company's internal risk grading system as well as certain other information concerning the credit quality of the Company's recorded investment in loans held-for-investment as of the periods presented. No assets were classified as loss or doubtful during the periods presented.

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
December 31, 2021					
Real estate loans:					
One-to-four family	\$ 102,307	\$ 451	\$ 3,080	\$ —	\$ 105,838
Multi-family	56,855	—	—	—	56,855
Commercial	199,598	10,528	—	—	210,126
Construction	7,502	—	—	—	7,502
Commercial and industrial	335,362	—	—	—	335,362
Reverse mortgage and other	499	—	923	—	1,422
Mortgage warehouse	177,115	—	—	—	177,115
Total loans held-for-investment	<u>\$ 879,238</u>	<u>\$ 10,979</u>	<u>\$ 4,003</u>	<u>\$ —</u>	<u>\$ 894,220</u>

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
December 31, 2020					
Real estate loans:					
One-to-four family	\$ 182,760	\$ 3,335	\$ 4,105	\$ —	\$ 190,200
Multi-family	77,288	—	—	—	77,288
Commercial	288,471	5,854	7,755	—	302,080
Construction	6,137	—	—	—	6,137
Commercial and industrial	78,275	—	274	—	78,549
Reverse mortgage and other	631	—	879	—	1,510
Mortgage warehouse	97,903	—	—	—	97,903
Total loans held-for-investment	<u>\$ 731,465</u>	<u>\$ 9,189</u>	<u>\$ 13,013</u>	<u>\$ —</u>	<u>\$ 753,667</u>

Purchases and Sales

The following table presents loans held-for-investment purchased and/or sold during the year by portfolio segment:

	December 31,			
	2021		2020	
	Purchases	Sales	Purchases	Sales
(Dollars in thousands)				
Real estate loans:				
One-to-four family	\$ —	\$ —	\$ 89,873	\$ —
Multi-family	1,040	—	—	—
	<u>\$ 1,040</u>	<u>\$ —</u>	<u>\$ 89,873</u>	<u>\$ —</u>

Related Party Loans

The Company had related-party loans with an outstanding balance of \$7.7 million and \$5.0 million as of December 31, 2021 and 2020, respectively. During the year ended December 31, 2021, the Company advanced \$5.3 million of related party loans and received \$2.7 million in principal payments. During the year ended December 31, 2020, the Company advanced \$0.5 million of related party loans and received \$0.1 million in principal payments.

Note 4—Premises and Equipment, Net

Year-end premises and equipment were as follows:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Equipment, furniture, and software	\$ 8,286	\$ 6,381
Leasehold improvements	1,372	1,372
	9,658	7,753
Accumulated depreciation and amortization	(6,650)	(5,681)
Total premises and equipment, net	\$ 3,008	\$ 2,072

Depreciation expense was \$1.0 million and \$2.1 million for years ended December 31, 2021 and 2020, respectively. Depreciation expense during the year ended December 31, 2020, included \$0.9 million related to disposal of furniture, equipment and leasehold improvements no longer in use.

Operating leases

The Company leases all of its office facilities under operating lease arrangements. Leases are typically payable in monthly installments with original lease terms ranging from 12 to 84 months and may contain renewal options. The leases provide that the Company pays real estate taxes, insurance, and certain other operating expenses applicable to the leased premises in addition to the monthly minimum payments. In the fourth quarter of 2020, the Company consolidated its branch and headquarters offices into one floor and recorded an impairment of the right-of-use assets no longer in use.

Supplemental balance sheet information related to leases were as follows:

		December 31,	
		2021	2020
		(Dollars in thousands)	
Operating leases	Balance Sheet Classification		
Right-of-use assets	Other assets	\$ 4,457	\$ 1,799
Lease liabilities	Accrued expenses and other liabilities	5,233	3,376

The weighted-average remaining lease term and discount rate were as follows:

	December 31,	
	2021	2020
Weighted-average remaining lease term	4.7 years	2.0 years
Weighted-average discount rate	4.70 %	4.21 %

The components of lease expense for the periods presented were as follows:

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Operating lease costs ⁽¹⁾	\$ 973	\$ 2,943
Short-term lease costs ⁽²⁾	40	102
Variable lease costs	39	77
Less: Sublease income	(201)	(155)
Total lease costs	\$ 851	\$ 2,967

(1) Includes a \$1.4 million impairment charge related to leased office space no longer in use for the year ended December 31, 2020.

(2) Short-term lease costs are for leases with a term of one year or less including terms of one month or less per accounting policy election.

Maturities of lease liabilities were as follows:

	December 31, 2021
	(Dollars in thousands)
Operating leases	
2022	\$ 1,513
2023	991
2024	815
2025	820
2026	857
Thereafter	741
Total lease payments	5,737
Less: imputed lease interest	(504)
Total lease liabilities	<u>\$ 5,233</u>

As of December 31, 2021 and 2020, the Company had no additional operating lease commitments for office facilities that have not yet commenced. Cash paid for amounts included in the measurement of operating lease liabilities was \$1.8 million and \$1.7 million for the years ended December 31, 2021 and 2020, respectively.

Note 5—Deposits

The following table presents the composition of our deposits as of the dates presented:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Noninterest bearing demand accounts	\$ 14,213,472	\$ 5,133,579
Interest bearing accounts:		
Interest bearing demand accounts	7,455	42,143
Money market and savings accounts	69,161	71,460
Certificates of deposit	540	844
Interest bearing accounts	77,156	114,447
Total deposits	<u>\$ 14,290,628</u>	<u>\$ 5,248,026</u>

Certificates of deposit at December 31, 2021, are scheduled to mature as follows:

	Amount
	(Dollars in thousands)
Year Ended December 31,	
2022	\$ 448
2023	39
2024	53
Thereafter	—
Total	<u>\$ 540</u>

There were no certificates of deposit that met or exceeded the FDIC insurance limit of \$250,000 at December 31, 2021 or 2020.

Deposits from officers, directors, and affiliates at December 31, 2021 and 2020, were approximately \$0.5 million and \$1.2 million, respectively.

The Bank's 10 largest depositors accounted for \$6.5 billion in deposits, or approximately 45.3% of total deposits at December 31, 2021 compared to \$2.5 billion in deposits, or approximately 47.5% of total deposits at December 31, 2020, substantially all of which are customers operating in the digital currency industry. Deposits from digital currency exchanges represent approximately 58.0% of the Bank's total deposits and are held by approximately 94 exchanges at December 31, 2021 compared to 47.2% of total deposits, held by 76 exchanges at December 31, 2020.

Note 6—FHLB Advances and Other Borrowings***FHLB Advances***

FHLB advances or borrowing capacity can be secured with eligible collateral consisting of qualifying real estate loans or certain securities. Advances from the FHLB are subject to the FHLB's collateral and underwriting requirements, and as of December 31, 2021 and 2020, were limited in the aggregate to 35% of the Bank's total assets. Loans with carrying values of approximately \$1.4 billion and \$1.5 billion were pledged to the FHLB as of December 31, 2021 and 2020, respectively. Unused borrowing capacity based on the lesser of the percentage of total assets and pledged collateral was approximately \$973.9 million and \$893.0 million as of December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, there were no FHLB advances outstanding.

FRB Advances

The Bank is also approved to borrow through the Discount Window of the Federal Reserve Bank of San Francisco on a collateralized basis without any fixed dollar limit. Loans with a carrying value of approximately \$6.0 million and \$6.3 million were pledged to the FRB at December 31, 2021 and 2020, respectively. The Bank's borrowing capacity under the Federal Reserve's discount window program was \$5.2 million as of December 31, 2021. At December 31, 2021 and 2020, there were no FRB advances outstanding.

Federal Funds Purchased

The Bank may borrow up to an aggregate \$108.0 million, overnight on an unsecured basis from two of its correspondent banks. Access to these funds is subject to liquidity availability, market conditions and any negative material change in the Bank's credit profile. As of December 31, 2021 and 2020, the Company had no outstanding balance of federal funds purchased.

Note 7—Subordinated Debentures, Net

A trust formed by the Company issued \$12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at six-month LIBOR plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At December 31, 2021, the interest rate for the Company's next scheduled payment was 3.91%, based on six-month LIBOR of 0.16%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued \$3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At December 31, 2021, the interest rate for the Company's next scheduled payment was 2.05%, based on three-month LIBOR of 0.20%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

The outstanding balance of the subordinated debentures was \$15.8 million, net of \$0.1 million unamortized debt issuance cost as of December 31, 2021 and 2020.

Note 8—Derivative and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The Company utilizes interest rate derivatives as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the derivative does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual derivative agreements. In accordance with accounting guidance, changes in the fair value of derivatives designated and that qualify as cash flow hedges are initially recorded in other comprehensive income ("OCI"), reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with

the changes in cash flows of the designated hedged transactions. For cash flow and fair value hedges, the initial fair value of hedge components excluded from the assessment of effectiveness is recognized in earnings under a systematic and rational method over the life of the hedging instrument and is presented in the same income statement line item as the earnings effect of the hedged item. Any difference between the change in the fair value of the hedge components excluded from the assessment of effectiveness and the amounts recognized in earnings is recorded as a component of other comprehensive income. For a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. The changes in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities. The amount included as basis adjustments would be reclassified to current earnings on a straight-line basis over the original life of the hedged item should the hedges no longer be considered effective.

Interest rate swaps. In 2020, the Company entered into two pay-fixed/receive floating rate interest rate swaps (the “Swap Agreements”) for a notional amount of \$14.3 million that were designated as fair value hedges of certain available-for-sale securities. The Swap Agreements were determined to be fully effective during the periods presented and therefore no amount of ineffectiveness has been included in net income. In October 2021, the Company sold the swaps and related securities, which resulted in a gain of \$0.9 million related to the swaps to be recognized immediately. The gain was recorded in other noninterest income on the statement of operations. The Swap Agreements were based on three-month LIBOR and had original expiration dates in 2030 and 2031.

Interest rate floors. In 2019, the Company entered into 20 interest rate floor agreements (the “Floor Agreements”) for a total notional amount of \$400.0 million to hedge cash flow receipts on cash and securities or loans, if needed. The original Floor Agreements expire on various dates in April 2024 and July 2029. The Company utilizes one-month LIBOR and three-month LIBOR interest rate floors as hedges against adverse changes in cash flows on the designated cash, securities or loans attributable to fluctuations in the federal funds rate or three-month LIBOR below 2.50% or 2.25%, as applicable. The Floor Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has been included in net income. The upfront fee paid to the counterparty in entering into these Floor Agreements was approximately \$20.8 million. During the three months ended March 31, 2020, the Company sold \$200.0 million of its total \$400.0 million notional amount of interest rate floors for \$13.0 million, which resulted in a net gain of \$8.4 million, to be recognized over the weighted average remaining term of 4.1 years. The remaining agreements are one-month LIBOR floors with a strike price of 2.25% and expire in July 2029.

Interest rate caps. In 2021, the Company entered into 26 interest rate cap agreements with a total notional amount of \$552.8 million (“Federal Funds Rate Cap Agreements”). The Federal Funds Rate Cap Agreements are designated as fair value hedges against changes in the fair value of certain fixed rate tax-exempt municipal bonds. The Company utilizes the interest rate caps as hedges against adverse changes in interest rates on the designated securities attributable to fluctuations in the federal funds rate above 2.00%, as applicable. An increase in the benchmark interest rate hedged reduces the fair value of these assets. The Federal Funds Rate Cap Agreements expire on various dates from 2027 to 2032. The upfront fee paid to the counterparties was approximately \$24.7 million. The Company expects the Federal Funds Rate Cap Agreements to remain effective during the remaining term of the respective agreements.

In 2012 the Company entered into a \$12.5 million and a \$3.0 million notional forward interest rate cap agreement (the “LIBOR Cap Agreements”) to hedge its variable rate subordinated debentures. The LIBOR Cap Agreements expire July 25, 2022 and March 15, 2022, respectively. The Company utilizes interest rate caps as hedges against adverse changes in cash flows on the designated preferred trusts attributable to fluctuations in three-month LIBOR beyond 0.50% for the \$3.0 million subordinated debenture and six-month LIBOR beyond 0.75% for the \$12.5 million subordinated debenture. The Cap Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has been included in net income. The upfront fee paid to the counterparty in entering into these LIBOR Cap Agreements was approximately \$2.5 million.

The table below presents the fair value of the Company's derivative financial instruments as well as the classification within the consolidated statements of financial condition.

	December 31,			
	2021		2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivatives designated as hedging instruments:				
Cash flow hedge interest rate floor	Derivative assets	\$ 18,992	Derivative assets	\$ 30,766
Cash flow hedge interest rate cap	Derivative assets	—	Derivative assets	—
Fair value hedge interest rate swap	Derivative assets	—	Derivative assets	338
Fair value hedge interest rate cap	Derivative assets	15,064	Derivative assets	—

The following table presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of those items as of the periods presented.

Line Item in the Statement of Financial Condition of Hedged Item:	Carrying Amount of the Hedged Asset (Liability)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities)	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	(Dollars in thousands)			
Securities available-for-sale	\$ 697,437	\$ 15,367	\$ —	\$ (278)

The following table summarizes the effects of derivatives in cash flow and fair value hedging relationships designated as hedging instruments on the Company's OCI and consolidated statements of operations for the periods presented:

	Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income					
	Year Ended December 31,			Year Ended December 31,					
	2021	2020		2021	2020				
	(Dollars in thousands)								
Derivatives designated as hedging instruments:									
Cash flow hedge interest rate floor	\$	(1,483)	\$	6,167	Interest income - Other interest earning assets	\$	560	\$	745
Cash flow hedge interest rate floor		(5,931)		17,949	Interest income - Taxable securities		4,303		2,910
Cash flow hedge interest rate cap		—		(297)	Interest expense - Subordinated debentures		(402)		(309)
Fair value hedge interest rate cap ⁽¹⁾		(7,951)		—					

(1) Represents amounts excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in other comprehensive income.

The Company estimates that approximately \$4.1 million of net derivative gain for cash flow hedges included in OCI will be reclassified into earnings within the next 12 months. No gain or loss was reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the periods presented.

The following table presents the effect of fair value hedge accounting on the Company's consolidated statements of operations for the periods presented.

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships			
	Year Ended December 31,			
	2021		2020	
	Interest income - Taxable securities	Interest income - Tax- exempt securities	Interest income - Taxable securities	Interest income - Tax- exempt securities
(Dollars in thousands)				
Total interest income presented in the statement of operations in which the effects of fair value hedges are recorded	\$ 36,094	\$ 17,301	\$ 17,465	\$ 5,062
Effects of fair value hedging relationships				
Interest rate contracts:				
Hedged items	\$ (626)	\$ —	\$ (390)	\$ —
Derivatives designated as hedging instruments	515	—	355	—
Amount excluded from effectiveness testing recognized in earnings based on amortization approach	—	(1,729)	—	—

Note 9—Income Taxes

Income tax expense consists of the following for the periods presented:

	Year Ended December 31,	
	2021	2020
(Dollars in thousands)		
Current provision		
Federal	\$ 3,556	\$ 3,441
State	4,391	2,121
	7,947	5,562
Federal deferred tax benefit	(614)	(286)
State deferred tax benefit	(458)	(120)
	(1,072)	(406)
Income tax expense	\$ 6,875	\$ 5,156

Comparison of the federal statutory income tax rates to the Company's effective income tax rates for the periods presented is as follows:

	Year Ended December 31,			
	2021		2020	
	Amount	Rate	Amount	Rate
(Dollars in thousands)				
Statutory federal tax	\$ 17,935	21.0 %	\$ 6,551	21.0 %
State tax, net of federal benefit	3,208	3.8 %	1,687	5.4 %
Tax credits	(409)	(0.5)%	(290)	(0.9)%
Tax-exempt income, net	(3,998)	(4.7)%	(1,063)	(3.4)%
Excess tax benefit from stock-based compensation	(9,846)	(11.5)%	(1,681)	(5.4)%
Other items, net	(15)	0.0 %	(48)	(0.2)%
Actual tax expense	\$ 6,875	8.1 %	\$ 5,156	16.5 %

Income tax expense was \$6.9 million for the year ended December 31, 2021 compared to \$5.2 million for the year ended December 31, 2020. The increase was primarily related to increased pre-tax income offset by a lower effective tax rate. The effective tax rates for the years ended December 31, 2021 and 2020 were 8.1% and 16.5%, respectively. The decrease in the effective rate from 2020 to 2021 was primarily related to excess tax benefit from stock-based compensation and tax-exempt income earned on certain municipal bonds.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities included in other assets are as follows:

	December 31,	
	2021	2020
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 2,027	\$ 1,941
Securities available-for-sale	4,016	—
Accrued vacation pay	633	448
Accrued bonus	402	301
State taxes	660	423
Operating lease liabilities	1,534	948
Other	987	279
Deferred tax assets	10,259	4,340
Deferred tax liabilities		
Basis difference in fixed assets	(546)	(271)
Securities available-for-sale	—	(11,301)
Derivatives	(1,147)	(6,665)
Operating lease right-of-use assets	(1,307)	(505)
Other	(766)	(1,012)
Deferred tax liabilities	(3,766)	(19,754)
Deferred tax asset (liability), net	\$ 6,493	\$ (15,414)

The net deferred tax assets are recorded in “Other assets” in the Company’s consolidated statements of financial condition for the year ended December 31, 2021. The net deferred tax liabilities are recorded in “Accrued expenses and other liabilities” in the Company’s consolidated statements of financial condition for the year ended December 31, 2020.

At each reporting date, the Company evaluates the positive and negative evidence used to determine the likelihood of realization of all its deferred tax assets. Based on this evaluation, management has concluded that deferred tax assets are more-likely-than-not to be realized and therefore no valuation allowance is required at December 31, 2021 and 2020.

The Company has no unrecognizable tax benefits recorded at December 31, 2021 and 2020 and does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. Additionally, the Company had no material interest or penalties paid or accrued related to income taxes reported in the income statement for the years ended December 31, 2021 and 2020.

The Company and its subsidiary are subject to U.S. federal income taxes as well as income taxes of various other state income taxes. The 2018 through 2021 tax years remain subject to examination by federal tax authorities, and generally, 2017 through 2021 tax years remain subject to examination by various state tax authorities.

Note 10—Commitments and Contingencies

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in the consolidated statements of financial condition. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized on the consolidated statements of financial condition. The Company’s exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. The Company is not aware of any accounting loss to be incurred by funding these commitments, however, an allowance for off-balance sheet credit risk is recorded in other liabilities on the statements of financial condition. The allowance for these commitments amounted to approximately \$0.6 million and \$0.1 million at December 31, 2021 and 2020, respectively.

The Company's commitments associated with outstanding letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	December 31,	
	2021	2020
	(Dollars in thousands)	
Unfunded lines of credit	\$ 248,092	\$ 49,487
Letters of credit	484	133
Total credit extension commitments	<u>\$ 248,576</u>	<u>\$ 49,620</u>

Unfunded lines of credit represent unused credit facilities to the Company's current borrowers that represent no change in credit risk that exist in the Company's portfolio. Lines of credit generally have variable interest rates. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the client from the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, bitcoin, cash and/or marketable securities. The Company's policies generally require that letter of credit arrangements contain security and debt covenants like those contained in loan agreements and our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to customers.

The Company minimizes its exposure to loss under letters of credit and credit commitments by subjecting them to the same credit approval and monitoring procedures used for on-balance sheet instruments. The effect on the Company's revenue, expenses, cash flows and liquidity of the unused portions of these letters of credit commitments cannot be precisely predicted because there is no guarantee that the lines of credit will be used.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract, for a specific purpose. Commitments generally have variable interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer.

Litigation

The Company is involved in various matters of litigation which have arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material adverse effect on the Company's financial statements.

Note 11—Stock-based Compensation

In June 2018, the Company adopted the 2018 Equity Compensation Plan, or 2018 Plan, that permits the Compensation Committee, in its sole discretion, to grant various forms of incentive awards. Under the 2018 Plan, the Compensation Committee has the power to grant stock options, stock appreciation rights, or SARs, restricted stock and restricted stock units. The number of shares that may be issued pursuant to awards under the 2018 Plan is 1,596,753.

In accordance with authoritative guidance for stock-based compensation, compensation expense is recognized only for those shares expected to vest, based on the Company's historical experience and future expectations. The Company has elected a policy of estimating expected forfeitures.

Total stock-based compensation expense was \$1.9 million and \$0.9 million for the years ended December 31, 2021 and 2020, respectively. The total income tax benefit was \$13.6 million and \$2.2 million, for the years ended December 31, 2021 and 2020, respectively.

Stock Options

Stock options issued under the 2018 Plan and 2010 Plan generally have terms of 10 years, with vesting based only on performing service through the vest date, which are generally graded over three to four years. Stock options are forfeited when the participant terminates service and vested options are exercisable within 60 days. Stock options are nontransferable and non-hedgeable. Stock options are issued at an exercise price not less than 100% of the fair market value of a share of the Company's common stock on the date of grant. Stock options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock, historical volatilities of a peer group or a combination of both. The Company uses the simplified method to estimate expected term for stock options because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of the option grants for the years ended December 31, 2021 and 2020 and were estimated on the date of the grant using the Black-Scholes option pricing model with the assumptions presented below:

	Year Ended December 31,	
	2021	2020
Weighted-average assumptions used:		
Risk-free interest rate	0.95 %	1.45 %
Expected term	6.0 years	6.2 years
Expected stock price volatility	42.44 %	30.88 %
Dividend yield	0.00 %	0.00 %
Weighted-average grant date fair value	\$ 52.78	\$ 4.93

A summary of stock option activity as of December 31, 2021 and changes during the year then ended is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	595,303	\$ 8.01		
Granted	18,585	127.56		
Exercised	(414,602)	5.39		
Forfeited or expired	(8,095)	16.09		
Outstanding at December 31, 2021	191,191	\$ 24.97	7.1 years	\$ 23,561
Exercisable at December 31, 2021	94,434	\$ 12.16	6.1 years	\$ 12,847
Vested or Expected to Vest at December 31, 2021	182,372	\$ 24.73	7.1 years	\$ 22,518

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the book value of the Company's common stock as of the reporting date. The intrinsic value of options exercised was approximately \$43.0 million and \$7.8 million for the years ended December 31, 2021 and 2020, respectively. The tax benefit from option exercises was approximately \$12.5 million and \$2.1 million, for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, there was \$1.0 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 2.1 years.

Restricted Stock Units

Restricted stock unit awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest over one to four years from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period.

A summary of the status of the Company's nonvested restricted stock unit awards as of December 31, 2021, and changes during the year then ended, is presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2021	58,690	\$ 15.61
Granted	31,788	121.61
Vested	(29,499)	15.17
Forfeited	(4,108)	50.91
Nonvested at December 31, 2021	56,871	\$ 72.53

At December 31, 2021, there was approximately \$2.6 million of total unrecognized compensation expense related to nonvested restricted stock unit awards, which is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of awards vested during the years ended December 31, 2021 and 2020 was \$0.4 million and \$0.5 million, respectively.

Note 12—Employee Benefit Plan

The Company has a 401(k) plan in which approximately 93% of all employees participate. Employees may contribute a percentage of their compensation subject to certain limits based on Federal tax laws. During the years ended December 31, 2021 and 2020, the Company made an elective matching contribution up to 50% of deferrals to a maximum of the first 5% of the employee's compensation contributed to the plan. Additionally, the Company had the option to make an elective annual discretionary contribution as determined annually by management. For the years ended December 31, 2021 and 2020, total expense attributed to the plan amounted to approximately \$0.6 million and \$0.5 million, respectively.

Note 13—Regulatory Capital

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. As of January 1, 2019, the capital conservation buffer had fully phased in to 2.50%. Inclusive of the fully phased-in capital conservation buffer, the common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio minimums are 7.00%, 8.50% and 10.50%, respectively. The net unrealized gain or loss on available for sale securities and derivatives are not included in computing regulatory capital. Management believes as of December 31, 2021, the Company and the Bank met all capital adequacy requirements to which they were subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. For the periods presented, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual capital amounts and ratios for the Company and the Bank as of December 31, 2021 and 2020, are presented in the following tables:

	Actual		Minimum capital adequacy ⁽¹⁾		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2021						
The Company						
Tier 1 leverage ratio	\$ 1,631,257	11.07 %	\$ 589,614	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	1,422,136	49.53 %	129,198	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	1,631,257	56.82 %	172,264	6.00 %	N/A	N/A
Total risk-based capital ratio	1,638,794	57.08 %	229,686	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	1,546,693	10.49 %	589,595	4.00 %	\$ 736,994	5.00 %
Common equity tier 1 capital ratio	1,546,693	53.89 %	129,162	4.50 %	186,567	6.50 %
Tier 1 risk-based capital ratio	1,546,693	53.89 %	172,216	6.00 %	229,622	8.00 %
Total risk-based capital ratio	1,554,230	54.15 %	229,622	8.00 %	287,027	10.00 %
	Actual		Minimum capital adequacy ⁽¹⁾		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2020						
The Company						
Tier 1 leverage ratio	\$ 263,763	8.29 %	\$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	\$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

(1) Minimum capital adequacy for common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio excludes the capital conservation buffer.

The Bank is restricted as to the amount of dividends that it can pay to the Company. Dividends declared in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholders during the same period must be approved by the California DFPI. Also, the Bank may not pay dividends that would result in capital levels being reduced below the minimum requirements shown above.

Note 14—Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard's fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2—Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect a Company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial Instruments Required To Be Carried At Fair Value

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities. The fair values of securities available-for-sale and trading securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs).

Derivatives. The Company’s derivative assets and liabilities are carried at fair value as required by GAAP. The estimated fair values of the derivative assets and liabilities are based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Impaired loans (collateral-dependent). The Company does not record impaired loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants. These appraisals may utilize a single valuation approach or a combination of approaches, which generally include various Level 3 inputs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and such adjustments are typically significant. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary. Impaired loans presented in the table below as of the periods presented, include impaired loans with specific allowances as well as impaired loans that have been partially charged-off.

The following tables provide the hierarchy and fair value for each class of assets and liabilities measured at fair value for the periods presented.

As of December 31, 2021 and 2020, assets and liabilities measured at fair value on a recurring basis are as follows:

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
December 31, 2021					
Assets					
Securities available-for-sale		\$ —	\$ 8,625,259	\$ —	\$ 8,625,259
Derivative assets		—	34,056	—	34,056
		<u>\$ —</u>	<u>\$ 8,659,315</u>	<u>\$ —</u>	<u>\$ 8,659,315</u>
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
December 31, 2020					
Assets					
Securities available-for-sale		\$ —	\$ 939,015	\$ —	\$ 939,015
Derivative assets		—	31,104	—	31,104
		<u>\$ —</u>	<u>\$ 970,119</u>	<u>\$ —</u>	<u>\$ 970,119</u>

There were no assets measured at fair value on a nonrecurring basis as of December 31, 2021. As of December 31, 2020 assets measured at fair value on a non-recurring basis are summarized as follows:

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	Total
(Dollars in thousands)					
December 31, 2020					
Assets					
Impaired loans:					
Reverse mortgage	\$	—	\$	—	\$ 317
					\$ 317

Quantitative Information about Level 3 Fair Value Measurements

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of the date indicated:

	Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Range	Weighted Average ⁽¹⁾
(Dollars in thousands)					
December 31, 2020					
Collateral-dependent impaired loans	\$ 317	Market comparable properties	Marketability discount	10.0 %	10.0 %

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

Financial Instruments Not Required To Be Carried At Fair Value

FASB ASC Topic 825, *Financial Instruments*, requires the disclosure of the estimated fair value of financial instruments. The Company's estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following tables present information about the Company's assets and liabilities that are not measured at fair value in the consolidated statements of financial condition as of the dates presented:

	Carrying Amount	Fair Value Measurements Using			
		Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
December 31, 2021					
Financial assets:					
Cash and due from banks	\$ 208,193	\$ 208,193	\$ —	\$ —	\$ 208,193
Interest earning deposits	5,179,753	5,179,753	—	—	5,179,753
Loans held-for-sale	893,194	—	893,194	—	893,194
Loans held-for-investment, net	887,304	—	—	891,166	891,166
Accrued interest receivable	40,370	41	8,980	31,349	40,370
Financial liabilities:					
Deposits	\$ 14,290,628	\$ —	\$ 14,167,200	\$ —	\$ 14,167,200
Subordinated debentures, net	15,845	—	15,646	—	15,646
Accrued interest payable	223	—	223	—	223
	Carrying Amount	Fair Value Measurements Using			
		Level 1	Level 2	Level 3	Total
		(Dollars in thousands)			
December 31, 2020					
Financial assets:					
Cash and due from banks	\$ 16,405	\$ 16,405	\$ —	\$ —	\$ 16,405
Interest earning deposits	2,945,682	2,945,682	—	—	2,945,682
Loans held-for-sale	865,961	—	865,961	—	865,961
Loans held-for-investment, net	746,751	—	—	751,165	751,165
Accrued interest receivable	8,698	8	2,630	6,060	8,698
Financial liabilities:					
Deposits	\$ 5,248,026	\$ —	\$ 5,458,900	\$ —	\$ 5,458,900
Subordinated debentures, net	15,831	—	15,231	—	15,231
Accrued interest payable	260	—	260	—	260

Note 15—Earnings Per Share

The computation of basic and diluted earnings per share is shown below.

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands, except per share data)	
Basic		
Net income	\$ 78,528	\$ 26,038
Less: Dividends paid to preferred shareholders	3,016	—
Net income available to common shareholders	\$ 75,512	\$ 26,038
Weighted average common shares outstanding	25,582	18,691
Basic earnings per common share	\$ 2.95	\$ 1.39
Diluted		
Net income available to common shareholders	\$ 75,512	\$ 26,038
Weighted average common shares outstanding for basic earnings per common share	25,582	18,691
Add: Dilutive effects of stock-based awards	340	486
Average shares and dilutive potential common shares	25,922	19,177
Dilutive earnings per common share	\$ 2.91	\$ 1.36

Stock-based awards for 33,000 and 160,000 shares of common stock were not considered in computing diluted earnings per share for the years ended December 31, 2021 and 2020, respectively, because they were anti-dilutive.

Note 16—Shareholders' Equity

The Company's Articles of Incorporation, as amended, or Articles authorize the Company to issue up to (i) 125,000,000 shares of Class A Common Stock, par value \$0.01 per share ("Class A Common Stock"), (ii) 25,000,000 shares of Class B Non-Voting Common Stock, par value \$0.01 per share ("Class B Non-Voting Common Stock"), and (iii) 10,000,000 shares of Preferred Stock, par value \$0.01 per share.

Preferred Stock

The Company, upon authorization of the board of directors, may issue shares of one or more series of preferred stock from time to time. The board of directors may, without any action by holders of Class A and Class B Common Stock or, except as may be otherwise provided in the terms of any series of preferred stock of which there are shares outstanding, holders of preferred stock adopt resolutions to designate and establish a new series of preferred stock. Upon establishing such a series of preferred stock, the board will determine the number of shares of preferred stock of that series that may be issued and the rights and preferences of that series of preferred stock. The rights of any series of preferred stock may include, among others, general or special voting rights; preferential liquidation or preemptive rights; preferential cumulative or noncumulative dividend rights; redemption or put rights; and conversion or exchange rights.

On August 4, 2021, the Company issued and sold 8,000,000 depositary shares (the "Depositary Shares"), each representing a 1/40th interest in a share of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the "Series A Preferred Stock"), with a liquidation preference of \$1,000 per share of Series A Preferred Stock, equivalent to \$25 per Depositary Share. The aggregate gross proceeds of the offering were \$200.0 million and net proceeds to the Company were approximately \$193.7 million after deducting underwriting discounts and offering expenses. When, as and if declared by the board of directors of the Company, or a duly authorized board committee, dividends will be payable from the date of issuance, quarterly in arrears, beginning on November 15, 2021. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after August 15, 2026.

Preferred Stock Dividend

On October 14, 2021, the Company's Board of Directors declared the first quarterly dividend payment of \$15.08 per share, equivalent to \$0.377 per depositary share, on its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, for the period covering August 4, 2021 through November 14, 2021 for a total dividend of \$3.0 million. The depositary shares representing the Series A Preferred Stock are traded on the New York Stock Exchange under the symbol "SI PRA." The dividend was paid on November 15, 2021 to shareholders of record of the preferred stock as of October 29, 2021.

Common Stock

Class A Voting Common Stock. Each holder of Class A Common Stock is entitled to one vote for each share on all matters submitted to a vote of shareholders, except as otherwise required by law and subject to the rights and preferences of the holders of any outstanding shares of our preferred stock. The members of the Company’s board of directors are elected by a plurality of the votes cast. The Company’s Articles expressly prohibit cumulative voting.

Class B Non-Voting Common Stock. Class B Non-Voting Common Stock is non-voting while held by the initial holder with certain limited exceptions. Each share of Class B Non-Voting Common Stock will automatically convert into a share of Class A Common Stock upon certain sales or transfers by the initial holder of such shares including to an unaffiliated third-party and in a widely dispersed public offering. If Class B Non-Voting Common Stock is sold or transferred to an affiliate of the initial holder, the Class B Non-Voting Common Stock would not convert into Class A Common Stock.

On January 26, 2021, the Company completed its underwritten public offering of 4,563,493 shares of Class A common stock at a price of \$63.00 per share, including 595,238 shares of Class A common stock upon the exercise in full by the underwriters of their option to purchase additional shares. The aggregate gross proceeds of the offering were \$287.5 million and net proceeds to the Company were \$272.4 million after deducting underwriting discounts and offering expenses.

On March 9, 2021, the Company entered into an equity distribution agreement pursuant to which the Company could issue and sell, from time to time, up to an aggregate gross sales price of \$300.0 million of the Company’s shares of Class A common stock through an “at-the-market” equity offering program, or ATM Offering. As of June 30, 2021, the Company had completed the ATM Offering with a total of 2,793,826 shares of Class A common stock sold at an average price of \$107.38. The transactions resulted in net proceeds to the Company of \$295.1 million after deducting commissions and expenses.

On December 9, 2021, the Company completed its underwritten public offering of 3,806,895 shares of Class A common stock at a price of \$145.00 per share, including 496,551 shares of Class A common stock upon the exercise in full by the underwriters of their option to purchase additional shares. The aggregate gross proceeds of the offering were \$552.0 million and net proceeds to the Company were \$530.3 million after deducting underwriting discounts and offering expenses.

Accumulated Other Comprehensive Income

The Company presents comprehensive income in accordance with FASB ASC Topic 220, *Comprehensive Income*, that requires the disclosure of comprehensive income or loss and its components. Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and the change in the fair value of cash flow hedges, net of deferred tax effects, which are also recognized as a separate component of equity.

The following table shows for the years ended December 31, 2021 and 2020, changes in the balances of each component of accumulated other comprehensive income, net of tax:

	Unrealized Gains/ (Losses) on Available-for- Sale Securities	Derivative Asset/(Liability)	Accumulated Other Comprehensive Income/(Loss)
	(Dollars in thousands)		
Beginning balance, January 1, 2020	\$ 4,071	\$ 2,330	\$ 6,401
Current period other comprehensive income before reclassification	27,566	15,932	43,498
Amounts reclassified from accumulated other comprehensive income	(2,679)	(1,184)	(3,863)
Ending balance, December 31, 2020	28,958	17,078	46,036
Current period other comprehensive income before reclassification	(34,896)	(12,847)	(47,743)
Amounts reclassified from accumulated other comprehensive income	(3,750)	(1,465)	(5,215)
Ending balance, December 31, 2021	<u>\$ (9,688)</u>	<u>\$ 2,766</u>	<u>\$ (6,922)</u>

Note 17—Parent Company Financial Information

Condensed financial information for the Corporation (parent company only) is as follows:

Statements of Financial Condition

	December 31,	
	2021	2020
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	\$ 84,736	\$ 1,991
Investments in subsidiaries	1,540,392	308,740
Other assets	245	236
Total assets	\$ 1,625,373	\$ 310,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures, net	\$ 15,845	\$ 15,831
Accrued expenses and other liabilities	692	837
Total liabilities	16,537	16,668
Commitments and contingencies		
Preferred stock	2	—
Class A common stock	304	188
Class B non-voting common stock	—	1
Additional paid-in capital	1,421,592	129,726
Retained earnings	193,860	118,348
Accumulated other comprehensive (loss) income	(6,922)	46,036
Total shareholders' equity	1,608,836	294,299
Total liabilities and shareholders' equity	\$ 1,625,373	\$ 310,967

Statements of Operations

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Total interest income	\$ 17	\$ 22
Interest expense		
Subordinated debentures and other	993	1,083
Total interest expense	993	1,083
Net interest expense	(976)	(1,061)
Noninterest expense		
Salaries and employee benefits	1,219	1,071
Occupancy and equipment	102	102
Communications and data processing	174	176
Professional services	1,905	1,104
Correspondent bank charges	—	1
Other general and administrative	429	280
Total noninterest expense	3,829	2,734
Loss before income taxes and equity in undistributed earnings of subsidiaries	(4,805)	(3,795)
Income tax benefit	(1,362)	(1,032)
Equity in undistributed earnings of subsidiaries	81,971	28,801
Net income	78,528	26,038
Dividends on preferred stock	(3,016)	—
Net income available to common shareholders	\$ 75,512	\$ 26,038

Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Cash flows from operating activities		
Net income	\$ 78,528	\$ 26,038
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(81,971)	(28,801)
Other, net	333	323
Changes in operating assets and liabilities:		
Other assets	(35)	187
Accrued expenses and other liabilities	(145)	(424)
Net cash used in operating activities	(3,290)	(2,677)
Cash flows from investing activities		
Investments in subsidiaries	(1,201,000)	(7,500)
Net cash used in investing activities	(1,201,000)	(7,500)
Cash flows from financing activities		
Payments made on notes payable	—	(3,714)
Proceeds from common stock issuance, net	1,097,815	—
Proceeds from preferred stock issuance, net	193,621	—
Payments of preferred stock dividends	(3,016)	—
Proceeds from stock option exercise	1,923	41
Taxes paid related to net share settlement of equity awards	(3,308)	(3,335)
Other, net	—	90
Net cash provided by (used in) financing activities	1,287,035	(6,918)
Net increase (decrease) in cash and cash equivalents	82,745	(17,095)
Cash and cash equivalents, beginning of year	1,991	19,086
Cash and cash equivalents, end of year	\$ 84,736	\$ 1,991

Note 18—Subsequent Events

Preferred Stock Dividend

On January 14, 2022, the Company’s Board of Directors declared a quarterly dividend payment of \$13.44 per share, equivalent to \$0.336 per depositary share, on its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, for the period covering November 15, 2021 through February 14, 2022 for a total dividend of \$2.7 million. The depositary shares representing the Series A Preferred Stock are traded on the New York Stock Exchange under the symbol “SI PRA.” The dividend was paid on February 15, 2022 to shareholders of record of the preferred stock as of January 31, 2022.

Asset Purchase and Issuance of Common Stock

On January 31, 2022 the Company entered into an Asset Purchase Agreement (the “Purchase Agreement”) under which it acquired from the Libra Association, Diem Networks US HoldCo, Inc., Diem Networks US, Inc., Diem Networks II LLC, Diem LLC, and Diem Networks LLC, (collectively, the “Sellers”) certain intellectual property and other technology assets related to running a blockchain-based payment network. The assets acquired by the Company included development, deployment and operations infrastructure and tools for running a blockchain-based payment network designed to facilitate payments for commerce and cross-border remittances as well as proprietary software elements that are critical to running a regulatory-compliant stablecoin network. The acquired assets included certain Diem trade names, but the Company has no intention of using such trade names going forward. Prior to the transaction, the Sellers were in a pre-launch phase of development. The Company did not retain any of the Sellers’ employees.

Under the terms of the Purchase Agreement, the aggregate purchase price for the acquired assets was \$201.2 million, consisting of (i) \$50.0 million in cash consideration and (ii) \$151.2 million payable in shares of the Company’s Class A common stock (the “Stock Consideration Value”), issued and delivered to the Sellers. The total amount of the Company’s Class A common stock issued to the Sellers was 1,221,217 shares, which was determined by dividing the Stock Consideration Value

by the volume weighted average price per share of the Company's Class A common stock (as determined by Bloomberg) for the twenty trading days ending on and including the fifth trading day prior to January 31, 2022. Based on the closing price of the Company's Class A common stock on January 31, 2022, the value of the total transaction consideration was \$181.6 million. The Company accounted for the purchase as an asset acquisition and capitalized direct transaction costs related to the purchase of approximately \$6.6 million. Further development costs incurred will be capitalized in accordance with accounting guidance and the assets will be amortized over its expected useful life once it is ready for its intended use.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company will continue to review and document its disclosure controls and procedures and consider such changes in future evaluations of the effectiveness of such controls and procedures, as it deems appropriate.

Management's Report on Internal Control over Financial Reporting

The Company's Management is responsible for establishing and maintaining an effective system of internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the Company's internal control over financial reporting as of December 31, 2021. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2021, the Company maintained effective internal control over financial reporting based on those criteria.

Crowe LLP, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part II, Item 8. Financial Statements and Supplementary Data under the heading "Report of Independent Registered Public Accounting Firm" and includes an attestation report on the Company's internal control over financial reporting as of, and for the year ended December 31, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item with respect to our directors and certain corporate governance practices is contained in our Proxy Statement for our 2022 Annual Meeting of Shareholders (the “Proxy Statement”) to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2021. Such information is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item regarding security ownership of certain beneficial owners and management is incorporated by reference to our Proxy Statement to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2021.

Equity Compensation Plan Information

The following table provides information as of December 31, 2021, with respect to options and restricted stock units outstanding and shares available for future awards under the Company’s active equity incentive plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders:			
2010 Equity Compensation Plan	30,000	\$ 5.64	—
2018 Equity Compensation Plan	161,191	28.56	1,207,167
Equity compensation plans not approved by security holders	—	—	—
Total	191,191	\$ 24.97	1,207,167

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2021.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements.

The following consolidated financial statements of Silvergate Capital Corporation are filed as part of this Annual Report on Form 10-K under Item 8—Financial Statements and Supplementary Data:

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID 173)	58
Consolidated Statements of Financial Condition	60
Consolidated Statements of Operations	61
Consolidated Statements of Comprehensive Income	62
Consolidated Statements of Shareholders' Equity	63
Consolidated Statements of Cash Flows	64
Notes to Consolidated Financial Statements	66

(b) Exhibits.

Number	Description
3.1	Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
3.3	Articles Supplementary of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on August 4, 2021).
4.1	Specimen Class A Common Stock certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.2	Specimen Class B Non-Voting Common Stock certificate (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.3	Form of Investor Rights Agreement, dated February 22, 2018 (incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.4	Form of Investor Rights Agreement, dated February 23, 2015 (incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.5	Form of Investor Rights Agreement, dated August 20, 2014 (incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.6	Form of Investor Rights Agreement, dated September 7, 2011 (incorporated by reference to Exhibit 4.6 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
4.7	Deposit Agreement, dated August 4, 2021, by and among Silvergate Capital Corporation, American Stock Transfer and Trust Company, LLC, as depositary, and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on August 4, 2021).
4.8	Description of Registrant's Securities. The other instruments defining the rights of the long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.
10.1	Silvergate Capital Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.2	Form of Restricted Stock Unit Award Agreement under Silvergate Capital Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).

Number	Description
10.3	Form of Restricted Stock Award Agreement under the Silvergate Capital Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.4	Form of Incentive Stock Option Award Agreement under the Silvergate Capital Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.5	Form of Non-Qualified Stock Option Award Agreement under the Silvergate Capital Corporation 2018 Equity Plan (incorporated by reference to Exhibit 10.5 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.6	Form of Stock Appreciation Right Award agreement under the Silvergate Capital Corporation 2018 Equity Compensation Plan (incorporated by reference to Exhibit 10.6 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.7	Silvergate Capital Corporation 2010 Equity Compensation Plan (incorporated by reference to Exhibit 10.7 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.8	Form of Stock Option Award Agreement under the Silvergate Capital Corporation 2010 Equity Compensation Plan (incorporated by reference to Exhibit 10.8 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.9	Employment Agreement, effective January 1, 2018, by and among Silvergate Capital Corporation, Silvergate Bank and Alan J. Lane (incorporated by reference to Exhibit 10.9 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.10	Long Term Bonus Agreement, effective May 2, 2014, by and between Silvergate Bank and Dennis S. Frank (incorporated by reference to Exhibit 10.10 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.11	Change in Control Severance Agreement, dated September 29, 2005, by and among Silvergate Capital Corporation, Silvergate Bank and Derek J. Eisele (incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.12	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Alan J. Lane (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.13	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Benjamin C. Reynolds (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.14	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Kathleen E. Fraher (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).
10.15	Silvergate Bank Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on September 27, 2021).
10.16	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Derek J. Eisele (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
21.1	Subsidiaries of Silvergate Capital Corporation (incorporated by reference to Exhibit 21.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
23.1	Consent of Crowe LLP
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILVERGATE CAPITAL CORPORATION

Date: February 28, 2022

By: /s/ Alan J. Lane
 Alan J. Lane
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

	Signature	Title	Date
By:	<u>/s/ Alan J. Lane</u> Alan J. Lane	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2022
By:	<u>/s/ Antonio Martino</u> Antonio Martino	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2022
By:	<u>/s/ Michael T. Lempres</u> Michael T. Lempres	Chairman of the Board of Directors	February 28, 2022
By:	<u>/s/ Dennis S. Frank</u> Dennis S. Frank	Director	February 28, 2022
By:	<u>/s/ Robert C. Campbell</u> Robert C. Campbell	Director	February 28, 2022
By:	<u>/s/ Paul D. Colucci</u> Paul D. Colucci	Director	February 28, 2022
By:	<u>/s/ Karen F. Brassfield</u> Karen F. Brassfield	Director	February 28, 2022
By:	<u>/s/ Scott A. Reed</u> Scott A. Reed	Director	February 28, 2022
By:	<u>/s/ Thomas C. Dircks</u> Thomas C. Dircks	Director	February 28, 2022
By:	<u>/s/ Aanchal Gupta</u> Aanchal Gupta	Director	February 28, 2022

DESCRIPTION OF REGISTRANT'S SECURITIES

As of December 31, 2021, Silvergate Capital Corporation (the "Company," "we," or "our") had two class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our Class A Common Stock, \$0.01 par value per share (the "Class A Common Stock"), and our Depositary Shares each representing a 1/40th interest in a share of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the "Series A Preferred Stock").

DESCRIPTION OF CLASS A COMMON STOCK

General

The following description of the current terms of our capital stock is a summary and is not meant to be complete. It is qualified in its entirety by reference to the Maryland General Corporation Law (the "MGCL"), federal law, the Company's Articles of Incorporation, as amended (the "Articles") and the Company's Amended and Restated Bylaws (the "Bylaws").

Authorized Capital Stock

We are authorized by our Articles to issue up to (i) 125,000,000 shares of Class A Common Stock, (ii) 25,000,000 shares of Class B Common Stock, par value \$0.01 per share, and (iii) 10,000,000 shares of Preferred Stock, par value \$0.01 per share.

Voting Rights

Each holder of our Class A Common Stock is entitled to one vote for each share on all matters submitted to a vote of shareholders, except as otherwise required by law and subject to the rights and preferences of the holders of any outstanding shares of our preferred stock. The members of our board of directors (the "Board") are elected by a plurality of the votes cast. Our Articles expressly prohibit cumulative voting.

No Preemptive or Similar Rights

Holders of our Class A Common Stock do not have preemptive or subscription rights to acquire any authorized but unissued shares of our capital stock upon any future issuance of shares.

Dividend Rights

Subject to certain regulatory restrictions and to the rights of holders of any preferred stock that we may issue, all shares of our Class A Common Stock are entitled to share equally in dividends from legally available funds, when, as, and if declared by our Board.

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, all shares of our Class A Common Stock would be entitled to share equally in all

our remaining assets available for distribution to our shareholders after payment of creditors and subject to any prior distribution rights related to our preferred stock.

Business Combinations under our Articles and Maryland Law

Amendment of the Articles

In general and except for increases or decreases to our authorized shares of Class A and Class B Common Stock and any class of capital stock, which may be approved by our Board without shareholder approval, our Articles may be amended upon the vote of holders of two-thirds of the shares of the Company entitled to vote generally in an election of directors, voting together as a single class, which is the minimum vote required under Maryland law.

Restrictions on Business Combinations with Interested Shareholders

Section 3-602 of the MGCL, as in effect on the date hereof, imposes conditions and restrictions on certain “business combinations” (including, among other transactions, a merger, consolidation, share exchange, or, in certain circumstances, an asset transfer or issuance of equity securities) between a Maryland corporation and any person who beneficially owns at least 10% of the corporation’s stock, or an interested shareholder. Unless approved in advance by the board of directors, or otherwise exempted by the statute, such a business combination is prohibited for a period of five years after the most recent date on which the interested shareholder became an interested shareholder. After such five-year period, a business combination with an interested shareholder must be: (a) recommended by the corporation’s board of directors, and (b) approved by the affirmative vote of at least (i) 80% of the corporation’s outstanding shares entitled to vote and (ii) two-thirds of the outstanding shares entitled to vote which are not held by the interested shareholder with whom the business combination is to be effected, unless, among other things, the corporation’s common shareholders receive a “fair price” (as defined by the statute) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for his or her shares.

Control Share Acquisition Statute

Under the MGCL’s control share acquisition law, as in effect on the date hereof, voting rights of shares of stock of a Maryland corporation acquired by an acquiring person at ownership levels of 10%, 33 1/3% and 50% of the outstanding shares are denied unless conferred by a special shareholder vote of two-thirds of the outstanding shares held by persons other than the acquiring person and officers and directors of the corporation or, among other exceptions, such acquisition of shares is made pursuant to a merger agreement with the corporation or the corporation’s charter or bylaws permit the acquisition of such shares prior to the acquiring person’s acquisition thereof. Unless a corporation’s charter or bylaws provide otherwise, the statute permits such corporation to redeem the acquired shares at “fair value” if the voting rights are not approved or if the acquiring person does not deliver a “control share acquisition statement” to the corporation on or before the tenth day after the control share acquisition. The acquiring person may call a shareholder’s meeting to consider authorizing voting rights for control shares subject to meeting

disclosure obligations and payment of costs set out in the statute. If voting rights are approved for more than 50% of the outstanding stock, objecting shareholders may have their shares appraised and repurchased by the corporation for cash. Pursuant to the terms of our Bylaws, we have opted out from the operation of the control share acquisition law. As such, the above described control share acquisition statute is not applicable to us.

Certain Provisions Potentially Having an Anti-Takeover Effect

Our Articles and Bylaws contain certain provisions that may have the effect of deterring or discouraging, among other things, a non-negotiated tender or exchange offer for our Class A and Class B Common Stock, a proxy contest for control of the Company, the assumption of control of the Company by a holder of a large block of our Class A and Class B Common Stock and the removal of our directors or management. These provisions:

- empower our Board, without shareholder approval, to issue our preferred stock, the terms of which, including voting power, are set by our board of directors;
- empower our Board, without shareholder approval, to amend our Articles to increase or decrease our authorized shares of Class A and Class B Common Stock and any class of capital stock that we have the authority to issue;
- divide our Board into three classes serving staggered three-year terms;
- provide that directors may be removed from office for cause upon a majority shareholder vote and may be removed from office without cause only upon a 80% shareholder vote;
- eliminate cumulative voting in elections of directors;
- permit our Board to alter, amend or repeal our bylaws or to adopt new bylaws;
- require the request of holder of at least one-fifth of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting;
- prohibit shareholder action by less than unanimous written consent, thereby requiring virtually all actions to be taken at a meeting of the shareholders;
- require shareholders that wish to bring business before our annual meeting of shareholders or nominate candidates for election as directors at our annual meeting of shareholders to provide timely notice of their intent in writing; and
- enable our Board to increase, between annual meetings, the number of persons serving as directors and to fill vacancies created by such increase by a majority vote of the directors present at a meeting of directors.

Our Bylaws may have the effect of precluding a contest for the election of directors or the consideration of shareholder proposals if the established procedures for advance notice are not followed, or of discouraging or deterring a third party from conducting a

solicitation of proxies to elect its own slate of directors or to approve its proposal without regard to whether consideration of the nominees or proposals might be harmful or beneficial to us and our shareholders.

Restrictions on Ownership of Company Common Stock

The Bank Holding Company Act of 1956 (the “BHCA”) generally permits a company to acquire control of the Company with the prior approval of the Federal Reserve Board. However, any such company is restricted to banking activities, other activities closely related to the banking business as determined by the Federal Reserve Board and, for some companies, certain other financial activities. The BHC Act defines control in general as ownership of 25% or more of any class of voting securities, the authority to appoint a majority of the board of directors or other exercise of a controlling influence. Federal Reserve Board regulations provide that ownership of 5% or less of a class of voting securities is not control. As a policy matter, if a company owns more than 7.5% of a class of voting securities, the Federal Reserve Board expects the company to consult with the agency and in some cases will require the company to enter into passivity or anti-association commitments. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company following the offering, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company.

Stock Exchange Listing

Our Class A Common Stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “SI.”

Transfer Agent and Registrar

The transfer agent and registrar for our Class A Common Stock is American Stock Transfer & Trust Company, LLC.

DESCRIPTION OF PREFERRED STOCK

General

We have 200,000 shares of preferred stock issued and outstanding of which 200,000 are Series A Preferred Stock and the “stated amount” per share of the Series A Preferred Stock is \$1,000.

Ranking

With respect to the payment of dividends by, and distributions of assets upon any liquidation, dissolution or winding up of, the Company, the Series A Preferred Stock will rank:

- senior to our common stock and any class or series of our stock that ranks junior to the Series A Preferred Stock in the payment of dividends or in the distribution of

assets upon our liquidation, dissolution or winding up, referred to herein as "junior stock";

- senior to or on a parity with each other series of our preferred stock we may issue (except for any senior series that may be issued upon the requisite vote or consent of the holders of at least two-thirds of the shares of the Series A Preferred Stock at the time outstanding and entitled to vote, voting together as a single class with any other series of preferred stock entitled to vote thereon (to the exclusion of all other series of preferred stock), as provided in the articles supplementary relating to such preferred stock or otherwise; and
- junior to all existing and future indebtedness and other non-equity claims on us.

Dividend

General

Holders of Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors, or a duly authorized committee thereof, only out of funds legally available for the payment of dividends, non-cumulative cash dividends payable on the stated amount of \$1,000 per share at a rate of 5.375% per annum, and no more, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, each such date referred to herein as a "dividend payment date", with respect to the dividend period (or portion thereof) ending on the day preceding such respective dividend payment date. In the event that we issue additional shares of Series A Preferred Stock after the original issue date, those shares will be entitled to dividends that are declared on or after the date they are issued.

Dividends payable on the Series A Preferred Stock will be calculated for each dividend period (or portion thereof) on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upward. Dividends on the Series A Preferred Stock will cease to accrue on the redemption date, if any, as described below under "Preferred Stock — Redemption," unless we default in the payment of the redemption price of the shares of the Series A Preferred Stock called for redemption.

Restrictions on Dividends, Redemptions and Repurchases

So long as any share of Series A Preferred Stock remains outstanding, unless dividends on all outstanding shares of Series A Preferred Stock for the most recently completed dividend period have been paid in full or declared and a sum sufficient for the payment thereof has been set aside for payment, (i) no dividend may be declared or paid or set aside for payment, and no distribution may be made, on any junior stock, (ii) no monies may be paid or made available for a sinking fund for the redemption or retirement of junior stock, and (iii) no shares of junior stock shall be purchased, redeemed or otherwise acquired for consideration by the Company, subject to certain exceptions.

“Parity stock” means any other class or series of stock of the Company that ranks on a parity with the Series A Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Company.

“Dividend parity stock” means any class or series of our stock that ranks on a parity with the Series A Preferred Stock in the payment of current dividends. As of December 31, 2021, there are no series of parity stock outstanding.

Subject to the considerations described above, and not otherwise, dividends (payable in cash, stock or otherwise), as may be determined by our board of directors, or a duly authorized committee thereof, may be declared and paid on our common stock and any other junior stock from time to time out of any assets legally available for such payment, and the holders of Series A Preferred Stock shall not be entitled to participate in any such dividend.

Redemption

Optional Redemption

The Series A Preferred Stock is perpetual and has no maturity date. The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. We may redeem the Series A Preferred Stock at our option, (i) in whole or in part, from time to time, on any dividend payment date on or after August 15, 2026 and in whole but not in part at any time within 90 days following a Regulatory Capital Treatment Event (as defined in the Articles Supplementary), in each case, at a redemption price equal to the stated amount of \$1,000 per share (equivalent to \$25 per depositary share), together with any declared and unpaid dividends, without regard to any undeclared dividends, to but excluding the redemption date.

The Series A Preferred Stock are not subject to any mandatory redemption, sinking fund or other similar provisions. Neither the holders of the Series A Preferred Stock nor the holders of the related depositary shares have the right to require the redemption or repurchase of the Series A Preferred Stock.

Liquidation Rights

In the event we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, before any distribution or payment out of our assets may be made to or set aside for the holders of any junior stock, holders of the Series A Preferred Stock are entitled to receive out of our assets legally available for distribution to our stockholders (i.e., after satisfaction of all our liabilities to creditors, if any) an amount equal to the stated amount of \$1,000 per share (equivalent to \$25 per depositary share), together with any declared and unpaid dividends, without regard to any undeclared dividends, to but excluding the date of such payment, referred to herein as the “liquidation preference”. Holders of the Series A Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidating distribution.

For purposes of this section, the merger, consolidation or other business combination of the Company with any other entity, including a transaction in which the holders of Series A Preferred Stock receive cash, securities or property for their shares, or the sale, lease, conveyance, transfer or exchange of all or substantially all of the assets of the Company for cash, securities or other property, shall not constitute a liquidation, dissolution or winding up of the Company.

Voting Rights

Except as provided below or otherwise required by law, the holders of the Series A Preferred Stock have no voting rights.

Right to Elect Two Directors upon Nonpayment of Dividends

If and whenever dividends payable on Series A Preferred Stock or any class or series of parity stock having voting rights equivalent to those described in this paragraph, referred to herein as the “voting parity stock”, have not been declared and paid (or, in the case of voting parity stock bearing dividends on a cumulative basis, shall be in arrears) in an aggregate amount equal to full dividends for at least six quarterly dividend periods or their equivalent, whether or not consecutive, referred to herein as a “nonpayment event”, the number of directors on the board of directors shall automatically be increased by two and the holders of Series A Preferred Stock, together with the holders of any outstanding voting parity stock then entitled to vote for additional directors, voting together as a single class in proportion to their respective stated amounts, shall be entitled to elect by a plurality of the votes cast the two additional directors, or the preferred stock directors; provided that the election of any such directors shall not cause us to violate the corporate governance requirement of the NYSE (or any other exchange on which our securities may be listed) that listed companies must have a majority of independent directors and provided further that our board of directors shall at no time include more than two preferred stock directors (including, for purposes of this limitation, all directors that the holders of any series of voting preferred stock are entitled to elect pursuant to like voting rights).

When (i) dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series A Preferred Stock on four consecutive dividend payment dates following a nonpayment event and (ii) the rights of holders of any voting parity stock to participate in electing the preferred stock directors shall have ceased, the right of holders of the Series A Preferred Stock to participate in the election of preferred stock directors shall cease (but subject always to the revesting of such voting rights in the case of any future nonpayment event), the terms of office of all the preferred stock directors shall immediately terminate, and the number of directors constituting our board of directors shall automatically be reduced accordingly.

Other Voting Rights

So long as any shares of Series A Preferred Stock remain outstanding, in addition to any other vote or consent of stockholders required by law or our Articles, the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of the Series A Preferred Stock, voting together with any other series of preferred stock that would be

adversely affected in substantially the same manner and entitled to vote as a single class in proportion to their respective stated amounts (to the exclusion of all other series of preferred stock), given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, will be necessary to:

- amend or alter our Articles to authorize or increase the authorized amount of, or issue shares of, any class or series of our capital stock ranking prior to the Series A Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Company, or issue any obligation or security convertible into or evidencing the right to purchase any such shares;
- amend, alter or repeal the provisions of our Articles so as to materially and adversely affect the powers, preferences, privileges or rights of the Series A Preferred Stock, taken as a whole; or
- consummate (i) a binding share-exchange or reclassification involving the Series A Preferred Stock or (ii) a merger or consolidation of the Company with or into another entity (whether or not a corporation), unless in each case (A) the shares of the Series A Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, the Series A Preferred Stock is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent and (B) such shares remain outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and restrictions and limitations thereof, of the Series A Preferred Stock immediately prior to such consummation, taken as a whole.

Preemptive and Conversion Rights

The holders of the Series A Preferred Stock do not have any preemptive rights. The Series A Preferred Stock is not convertible into or exchangeable for property or shares of any other series or class of our capital stock.

DESCRIPTION OF DEPOSITARY SHARES

General

We have issued depositary shares each representing a 1/40th ownership interest in a share of Series A Preferred Stock, which are evidenced by depositary receipts. We have deposited the underlying shares of the Series A Preferred Stock with the Depositary pursuant to the Series A Deposit Agreement. Subject to the terms of the Series A Deposit Agreement, each holder of a depositary share is entitled, through the Depositary, in proportion to the applicable fraction of a share of Series A Preferred Stock represented by such depositary share, to all the rights and preferences of the Series A Preferred Stock represented thereby (including dividend, voting, redemption and liquidation rights).

Dividends and Other Distributions

Each dividend payable on a depositary share shall be in an amount equal to 1/40th of the dividend declared and payable on the related share of the Series A Preferred Stock. The Depositary will distribute any cash dividends or other cash distributions received in respect of the deposited Series A Preferred Stock to the record holders of depositary shares relating to the underlying Series A Preferred Stock in proportion to the number of depositary shares held by the holders.

Redemption of Depositary Shares

If we redeem the Series A Preferred Stock represented by the depositary shares, the depositary shares will be redeemed from the proceeds received by the Depositary resulting from the redemption of the Series A Preferred Stock held by the Depositary. The redemption price per depositary share is expected to be equal to 1/40th of the redemption price per share payable with respect to the Series A Preferred Stock (or \$25 per depositary share), plus any declared and unpaid dividends, without regard to any undeclared dividends, to, but excluding, the redemption date, on the shares of the Series A Preferred Stock.

Voting of the Series A Preferred Stock

Because each depositary share represents a 1/40th interest in a share of the Series A Preferred Stock, holders of depositary receipts are entitled to 1/40th of a vote per depositary share under those limited circumstances in which holders of the Series A Preferred Stock are entitled to a vote, as described above in “Preferred Stock — Voting Rights.”

When the Depositary receives notice of any meeting at which the holders of the Series A Preferred Stock are entitled to vote, the Depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the depositary shares relating to the Series A Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Series A Preferred Stock, may instruct the Depositary to vote the amount of the Series A Preferred Stock represented by the holder’s depositary shares. To the extent possible, the Depositary will vote the amount of the Series A Preferred Stock represented by depositary shares in accordance with the instructions it receives. We will agree to take all reasonable actions that the Depositary determines are necessary to enable the Depositary to vote as instructed. If the Depositary does not receive specific instructions from the holders of any depositary shares representing the Series A Preferred Stock, it will vote all depositary shares held by it proportionately with instructions received.

Depositary Agent, Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC is the depositary and transfer agent and registrar for the depositary shares. We may, in our sole discretion, remove the depositary in accordance with the agreement between us and the depositary; provided that

we will appoint a successor depositary who will accept such appointment prior to the effectiveness of the prior depositary's removal.

Form and Notices

The Series A Preferred Stock is issued in registered form to the depositary, and the depositary shares are issued in book-entry form through DTC. The depositary will forward to the holders of the depositary shares all reports, notices, and communications from us that are delivered to the depositary and that we are required to furnish to the holders of the Series A Preferred Stock.

Stock Exchange Listing of Depositary Shares

The depositary shares are listed on the NYSE under the symbol "SI PRA."

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-260198 on Form S-8, 333-234819 on Form S-8, 333-251095 on Form S-3, and 333-252258 on Form S-3ASR of Silvergate Capital Corporation of our report dated February 28, 2022 relating to the financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Costa Mesa, California
February 28, 2022

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alan J. Lane, certify that:

1. I have reviewed this periodic report on Form 10-K of Silvergate Capital Corporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

SILVERGATE CAPITAL CORPORATION

Date: February 28, 2022

By: /s/ Alan J. Lane
Alan J. Lane
President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Antonio Martino, certify that:

1. I have reviewed this periodic report on Form 10-K of Silvergate Capital Corporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

SILVERGATE CAPITAL CORPORATION

Date: February 28, 2022

By: /s/ Antonio Martino
Antonio Martino
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the periodic report of Silvergate Capital Corporation (the "Company") on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in his respective capacities indicated below, hereby certifies as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the undersigned's best knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

SILVERGATE CAPITAL CORPORATION

Date: February 28, 2022

By: /s/ Alan J. Lane
Alan J. Lane
President and Chief Executive Officer

Date: February 28, 2022

By: /s/ Antonio Martino
Antonio Martino
Chief Financial Officer